MCAP INC.

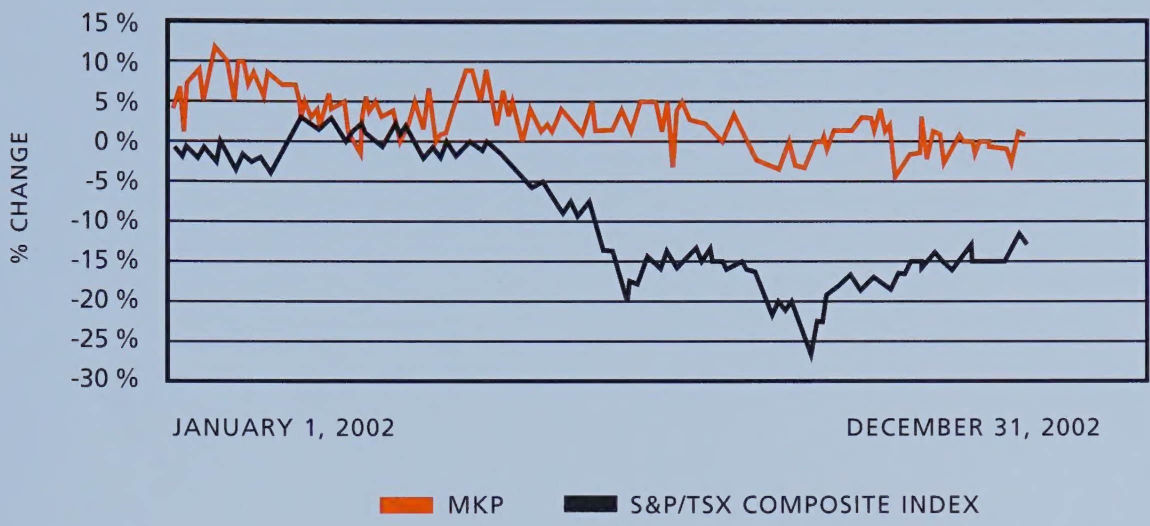
2002 ANNUAL REPORT

People Committed to Success

MCAP has achieved a position of strength as Canada's largest independent mortgage group, after years of careful building.

CONTENTS

12 MONTH STOCK PRICE TREND - MCAP INC. (MKP.TSX)



Our vision is to be the first choice for financial solutions in our chosen markets.

Our mission is to originate, underwrite and service mortgage and leasing assets that best serve the needs of our borrowers and investors.

Our employees uphold our core values, maintaining the highest ethical and professional standards, and placing the customer at the centre of all we do.

Message to Shareholders

We secured our position as Canada's largest independent mortgage group.

At MCAP, we have achieved a position of strength by managing our business according to sound business principles and positioning ourselves to take advantage of market opportunities. We have followed a rigorous discipline of strategic planning, and set goals for long-term sustainable growth. 2002 was a pivotal year in which MCAP became a fully integrated mortgage and leasing funder, and we secured our position as Canada's largest independent mortgage group. Today, our acquisition plans have largely been completed, and the foundations for our strategic goals have been put in place. MCAP has established a solid platform for future growth.

Our Company's achievement is all the more significant when considered in the context of today's business environment. The past year was notable for damaging revelations and major scandals in accounting disclosure, corporate governance and executive compensation, both in Canada and the United States. High profile corporate failures, and the ensuing dramatic erosion of shareholder equity, have undermined the confidence of many investors, and served to underline once more the importance of high ethical standards and sound corporate governance.

Left to right: **Philip Asseff**, President and CEO, MCAP Securities Inc.; **Derek Norton,** President and CEO; **Lorne Jenkins,** Vice-President and CFO; **Blaine Welch,** Senior Vice-President and Chief Risk and Investment Officer.

MCAP has been quietly successful by focusing on business fundamentals, and by setting and achieving realistic expectations for long-term sustainable earnings growth, thus increasing shareholder value. Although we made strides forward in 2002, MCAP also experienced a decrease in earnings. 2002 was expected to be a transitional year for the Company. The drag on earnings was largely due to the cost of integrating the operations of our new acquisitions, and the investments we made to enhance our operations.

What sets MCAP apart from the competition is operational excellence—expert people, up-to-date technology, efficient systems, and a carefully crafted framework of corporate governance. After recording ten consecutive years of positive earnings, and reaching a record of $15 billion in assets under administration, MCAP remains committed to the principles of sound management that have guided us so far. Looking ahead, we are satisfied with the progress we made to build, strengthen and enhance our operations. We are confident that this year's efforts will result in long-term gain in the future.

After recording ten consecutive years of positive earnings, and reaching a record of $15 billion in assets under administration, MCAP remains committed to the principles of sound management that have guided us so far.

Since many elements of our long-term strategic plans came to fruition in 2002, it was a prime opportunity to re-evaluate our corporate vision and mission, while forming plans to grow the Company over the next five years. Consequently, we redefined our vision, **"To be the first choice for financial solutions in our chosen markets."** Renewing our vision statement was no mere semantic exercise; rather, it was an articulation of the Company's purpose, as we see it. Our business is centred on the customer. We are steadily progressing toward our goal of being one point of service in the eyes of our customers, while at all times maintaining the necessary separation of operations to uphold regulatory and contractual obligations regarding compliance and confidentiality of private information.

Our mission is **"To originate, underwrite and service mortgage and leasing assets that best serve the needs of our borrowers and investors."** MCAP is on track with its mission. In 2002, we began to participate fully in all aspects of the mortgage and leasing business, greatly increasing our capacity to meet customer needs, and enlarging both our asset base and our customer base of borrowers, brokers and investors.

We are steadily progressing toward our goal of being one point of service in the eyes of our customers.

MCAP recorded several significant achievements in 2002. We completed a strategic alliance with Bentall Capital II Limited Partnership and CDP Capital - Real Estate Advisory Inc. (formerly Cadim Inc.) and began to reap the benefits of business opportunities and capital provided through this new relationship. Also, we successfully completed the acquisition of the Canada ICI group of companies. During the past year, the Canada ICI portfolio, and the TD Financial Group Third Party Servicing portfolio acquired in 2001, were successfully integrated with our commercial servicing group. Although any integration of cultures creates significant challenges, after a focused and carefully planned process, the commercial servicing unit is functioning as a single team and working to build the commercial servicing business.

In 2002, MCAP made the investments in systems and technology that we deemed necessary to build operational excellence and contribute to our future success. For example, we invested in the installation of the Mercury™ front-end system for residential mortgage origination, a new automated system that has increased functionality, productivity and quality, and is expected to make a positive impact on the profitability of our operations. Moreover, the system will help to strengthen our successful relationships with independent mortgage brokers, who account for most of our residential mortgage volumes. This achievement was further validated when MCAP achieved a rating of "Above Average" by Standard & Poor's for residential mortgage servicing.

With pride, we point to many other achievements in 2002. We increased employee morale and efficiency by consolidating our head office operations into new premises. We hired new people in key roles and invested in training. We built the infrastructure for successful operations, merging or sharing resources wherever feasible to reduce costs. We continued to pursue innovation, for example, by providing floating rate construction loans; this is a specialty product specifically tailored to meet the needs of our developer clients, on a project-by-project basis. Responding to the demand for these loans, MCAP has begun the process of securitizing pools of residential construction loans to make them more attractive for corporate and institutional investors. When complete, this initiative will give MCAP a competitive advantage in a niche market, setting it apart from all other Canadian investment product and service providers.

2002 was a year of strengthening and enhancing our operations to take advantage of the significant opportunities that we perceive in the market.

In conclusion, 2002 was a year of strengthening and enhancing our operations to take advantage of the significant opportunities that we perceive in the market. The demand for housing in Canada was extremely robust with new housing starts increasing by 25.9 percent from 2001 levels, and the residential mortgage market has remained strong. Given the scenario of a lukewarm investment climate, continuing weakness in equity markets, and widespread economic uncertainty, investors have developed a renewed appreciation for the relative safety of mortgage investments. All these factors are positive indicators for the growth of MCAP Inc.

Entering 2003, we remain optimistic about future prospects, but are cautious about the near-term in the current uncertain geopolitical environment. After years of careful building, MCAP has laid the solid foundation to achieve steady growth and long-term value for shareholders. To this end, we will continue to rely upon the commitment and efforts of our management team and employees. We owe our achievements so far to the dedication of our people. Their enthusiasm has helped us reach our goals. With their continued support, we are ready to capitalize on new opportunities in these dynamic and rapidly changing mortgage and leasing markets.

Derek Norton
President and Chief Executive Officer

Core Strength

Diversification and integration define MCAP's core structure and strength. MCAP operates in three key business segments: Investing, Mortgage Operations and Leasing Operations. Mortgage operations are diversified in the residential, residential construction and commercial mortgage markets. The Company provides integrated services, with origination, underwriting, funding and servicing capabilities in all our core business lines. But while diversification and integration are key, the true strength of the Company is based on the people who work here.

People Committed to Success

To achieve operational excellence, a company requires more than up-to-date technology and efficient processes. Skilled people complete the equation. MCAP relies on the talents, commitment and loyalty of our employees in every line of business. Our employees are expert in their field; they work according to the highest ethical and professional standards, ensuring that we are clear, consistent and fair in all our business transactions with borrowers, brokers, business partners and investors. Our people uphold our core values surrounding customer service, and demonstrate personal commitment to helping MCAP achieve its goals. Leadership is another source of pride. The Company is led by a seasoned senior management group, which holds a significant ownership stake in the Company. More than 70 percent of senior managers have been with MCAP and predecessors for more than ten years, contributing to our stable business environment. Their dedication to the Company's strategic vision and their determination to make the vision a reality have enabled MCAP to achieve its current position of strength in the market.

A Tradition of Service

From our roots as a traditional mortgage investment company, MCAP has become an integrated mortgage and leasing services group. Together, MCAP and its predecessors have accumulated many years of experience operating successfully in the Canadian mortgage and leasing marketplace. Drawing on this storehouse of knowledge, MCAP provides flexible solutions to meet the needs of borrowers and investors. Among larger financial institutions, MCAP has retained its independent status, and built value for customers by meeting specific needs in niche markets.

Sound Corporate Governance

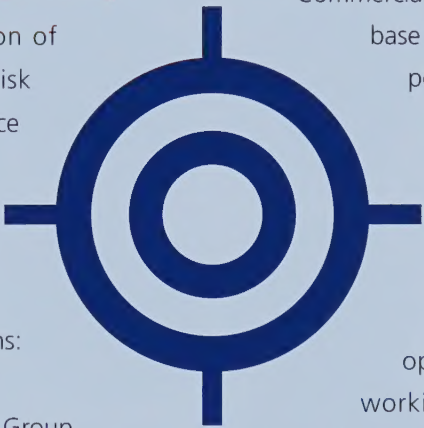
In today's business environment, companies are particularly concerned with issues of risk and corporate governance. In 2001, MCAP responded to these concerns proactively by forming an Enterprise Risk Management Department, responsible for planning, directing and controlling the impact of all risks arising from the Company's operations. As a result of these efforts, MCAP has implemented an enterprise-wide integrated risk management framework, emphasizing the essential role of good corporate governance and sound risk management within an effective internal control environment. Externally, MCAP is federally regulated by the Office of the Superintendent of Financial Institutions. On an ongoing basis, MCAP engages independent, third-party advisors to review and assess the Company's internal control environment; internally, our risk management group is responsible for maintaining strict underwriting standards. Overall, the Company maintains a cautious approach to financial management, including a commitment to maintaining conservative capital and liquidity ratios. All of this serves to underline, that while MCAP pursues innovation and profitability, it will not do so at the cost of following proper procedures.

Achieving Targets

In 2002, the senior management team continued an intensive strategic planning process, focusing on the core strengths of the Company, and setting realistic goals for expansion, given the current market opportunities and economic climate. Accordingly, planned acquisitions were executed and have now been completed. Due to the success of this orderly growth strategy, MCAP has become the largest independent mortgage group in Canada, as measured by fundings and administered assets.

Expanded Capacity and Capability

Through expansion and diversification of operations, MCAP has both reduced risk exposure and increased opportunity, since the Company is now enabled to provide complete service in each of our chosen markets. Here is a brief review of recent progress in creating more diversified revenue streams:



- In 2002, MCAP completed the acquisition of the Canada ICI Mortgage Group, thus acquiring a large share of the commercial broker market in Canada, with annual volumes in excess of $2.0 billion. This commercial origination business complements MCAP's successful residential mortgage and construction loan origination operations.
- In 2002, we began to put into place a number of new funding programs that were part of our new strategic alliance with Bentall Capital II Limited Partnership and Cadcap Inc., a subsidiary of CDP Capital - Real Estate Advisory Inc. These funding programs should add new long-term revenue streams to our mortgage operations, enhance the services we can offer our existing investor clients and allow us to offer new competitive products to our commercial borrowers and developers.
- In 2001, MCAP grew significantly in the commercial mortgage market by purchasing the third-party mortgage business of TD Bank Financial Group. We thus acquired a mortgage servicing portfolio of approximately $1.5 billion in commercial mortgages, $400 million in residential house construction and $55 million in homeowner loans.
- In 2001, MCAP purchased MTC Leasing Inc. Small and mid-size equipment lease income complements our mortgage-related income, and is a growing part of our business.
- In 2000, MCAP Financial Corporation formed MCAP Commercial Limited Partnership, creating a strong base for the subsequent growth in the portfolio of commercial term mortgages in Canada and the United States.

Achieving Operational Excellence

In 2002, MCAP took many steps to improve operations and move toward operational excellence, most notably working to integrate the Canada ICI origination and servicing business, as well as the third-party mortgage business of TD Bank Financial Group. With a mandate to build the infrastructure for successful operations, we made significant investments in new technology and systems. We launched the new Mercury™ mortgage front-end system for more efficient operations in single-family residential origination. In our leasing operations, we launched Express OS™, a new front-end system to provide on-line application processing, credit adjudication and transaction processing. We also developed our human resources by hiring new people in key roles and investing in training for our employees. With integrated operations, and diversified revenue streams, MCAP has built a strong and secure platform for sustainable growth. Now, we plan to increase volumes and revenues in all our core businesses.

Independent and Distinct

Each MCAP subsidiary company is run by its own management team as a profitable, independent business. Within each company, client records are proprietary and confidential. Strict privacy guidelines preclude information from being shared with any other company, including an MCAP subsidiary.

Profitable Lines of Business

MCAP operates in three key business segments: Investing, Mortgage Operations and Leasing Operations.

- Investing operations include asset and liability management, credit management and securitization.

- Mortgage operations generate fee income from residential, residential construction and commercial mortgages. The Company has substantial fee-based business, and is mainly involved in originating and managing assets for institutional investors and pension funds.

- Leasing activity is focused on small and mid-level segments of the market, mainly equipment leases for commercial, institutional and government enterprises.

Focused on Customer Needs

In every line of business, the customer is at the centre of all we do. Our vision states that we aspire to be the client's first choice for financial solutions. This vision becomes a reality, one customer at a time, as we concentrate on meeting each customer's particular needs. To monitor our ability to meet customer needs, we obtain third-party audits of the controls and processes of our operations. After analyzing the results, we make changes to our policies and upgrade procedures in order to improve our service.

- For borrowers, MCAP provides responsive service, increasing customer satisfaction through advanced technology at our customer call centre, where client information is available on-line in real time. Customer care is evident in our total case management approach. In 2002, the residential mortgage servicing business attained a rating of "Above Average" from Standard & Poor's, which cited key attributes including seasoned management, technology, internal controls and effective administrative processes. This positive rating validates our efforts to serve borrowers, and also sends a clear message to investors about our capabilities to manage and administer their portfolios.

- For brokers, MCAP provides innovative programs to facilitate their business and increase loyalty. The installation of the Mercury™ front-end system for residential mortgage origination is a development that enables speedy on-line applications and fast credit decisions, thus increasing client satisfaction.

- For business partners such as Bank of Montreal and Sun Life Assurance, MCAP provides complete mortgage portfolio management. MCAP adds value by providing responsive, transparent service to their customers, and by achieving superior retention of mortgages at renewal.

- For investors, MCAP provides recommendations suited to their particular needs and appetite for risk, as well as valuable information about emerging investment opportunities. MCAP packages mortgages in innovative ways to meet their needs. For example, we are making progress toward a securitization vehicle for floating rate residential construction loans, which will make them a more attractive investment for corporate and institutional investors.

Shared Resources Integrated Strategies

Our lines of business operate separately and independently, each in its own area of expertise, yet they all participate in the vision and plan for the overall growth of the Company. They are all subject to the same comprehensive, enterprise-wide system of corporate governance. While observing strict privacy guidelines regarding client information, all operations work together to make MCAP a cost efficient producer in the market. Where feasible, the MCAP group of companies combine and share resources to produce greater economies of scale, increase efficiency, and gain a competitive edge.

Focused on Achievable Growth

MCAP has carefully laid the foundation for achievable growth. With a new structure and composition, the Company is well diversified in a number of markets, so if one area is subject to a downturn, other areas can compensate and help maintain a pattern of stable earnings. Interest rate risk continues to be effectively managed by the practice of hedging. MCAP continues to focus on building volumes in our fee-based businesses, since these revenues are free of interest rate risk and have only limited exposure to loan losses.

In 2002, MCAP benefited from a strong housing market in Canada, and a correspondingly high demand for mortgages. As the economic uncertainty and market turbulence continue in North America and abroad, investors are once again coming to appreciate the value provided by mortgage investments. MCAP is positioned to meet their needs and expand our business.

Effectively Managing Risk

Our definition of business risk goes beyond controlling the impact of adverse events on MCAP. It goes beyond managing the uncertainties that could impact our operational performance. By diligent application of risk management principles to every area of our business, MCAP aims to improve the financial position of our Company so that we achieve a competitive advantage and increase shareholder value. This approach to risk management applies to all MCAP operations as they adhere to our corporate system of internal checks and balances, with tight control and reporting in the key areas of compliance and risk management.

Building for the Future

After the acquisitions and structural changes of the past few years, MCAP has built a more diversified base, and placed the business on a solid footing to meet new challenges in a rapidly changing market. Responsiveness is the key in today's market, where plans are always subject to review and revision, based on the latest developments. MCAP has the management expertise, internal resources and strong financial foundation to respond quickly and decisively to market opportunities. We will continue to evaluate potential new strategic alliances and profit opportunities as they arise, concentrating in those areas in which we have the management depth to succeed. Management decisions will be consistent with our risk management strategy and a disciplined plan. Moving forward, MCAP is on track to increase volumes of business and achieve healthy earnings. Long-term sustainable earnings growth will provide long-term value for shareholders.

Management's Discussion and Analysis of Operations MCAP Inc.

Report on Operations

In 2002, MCAP Inc. (the "Company" or "MCAP") completed transactions and activities that significantly built on the Company's foundation to generate long-term sustainable earnings. Most notably, the acquisition and integration of the Canada ICI Mortgage Group (Canada ICI) added a critical piece to the Company's operations. The addition of Canada ICI brings our commercial loan origination capacity in line with our already established and successful residential mortgage and construction loan origination business. With that acquisition, MCAP became Canada's largest independent mortgage company in all mortgage lines of business with origination, underwriting, funding and servicing capabilities in all of its core business lines. Also during this period, the Company raised additional capital through a new strategic alliance with Bentall Capital II Limited Partnership (BCLP) and Cadcap Inc. (Cadcap), a subsidiary of CDP Capital - Real Estate Advisory Inc. (CDP Capital), which in turn is a member company of the Caisse de dépôt et placement de Québec (CDP). This new relationship provided additional financial support, but more importantly, will open new opportunities that may not have been otherwise available to MCAP.

During the first quarter of 2002, the Company focused on closing the financing arrangement and the acquisition of Canada ICI. The second quarter was taken up with deploying the new capital and the integration of Canada ICI with the MCAP/Crown Life portfolio and the TD Bank Financial (TD) portfolio acquired late in 2001. During this period, the Company experienced a drop in earnings, resulting in an overall decline in earnings for the year. The second quarter drop in earnings related to three underlying factors. The first was the rapid decline in the prime rate, which occurred at the end of 2001 and compressed spreads on both our floating rate and unleveraged portfolios. Secondly, the Company incurred additional expenses related to the integration of Canada ICI. Thirdly, the Company faced difficulties and delays in deploying new capital into suitable investments. The Company overcame these setbacks, and results strengthened in the third and fourth quarters as operations normalized and balance sheet investments were completed.

Although the financing and acquisition activities in early 2002 reduced the current year's earnings, they were key components in growing and expanding the mortgage fee business that is expected to generate long-term sustainable earnings in future years. As a result of the lower earnings in the second quarter, the annual earnings per share were $0.58, compared to $0.85 in 2001. The Company made the decision to maintain the previous pattern of quarterly dividends at $0.17 per quarter by utilizing a portion of the opening retained earnings.

In addition to the strategic financing and acquisition activities, the Company's operations delivered some significant achievements.

Operational Highlights:

- Assets under administration for MCAP and affiliated companies (the "MCAP Group") reached $15 billion;
- Integration of Canada ICI commercial origination and servicing business;
- Implementation of the Legislative Compliance Management System;
- Consolidated assets exceeded $325 million;
- Ten consecutive years of positive quarterly and annual earnings;
- Development of a residential construction loan securitization program;
- Introduction of Mercury™ mortgage origination system;
- Launch of Express OS™ front-end leasing system;
- Achievement of an "Above Average" rating from Standard & Poor's for our single-family residential servicing business;
- Revisited the Company's strategic plan and planning process and developed a new Vision and Mission to reflect the expanded MCAP group of companies.

Vision and Mission

MCAP's vision and mission have been the driving force behind all the changes and growth experienced by the Company. MCAP is now well positioned to participate in all aspects of the mortgage and leasing businesses. The leadership team undertook to examine and revise the vision and mission statements of MCAP, updating the previous statements that had been established five years earlier. MCAP's new vision is "To be the first choice for financial solutions in our chosen markets." The Company's mission is "To originate, underwrite and service mortgage and leasing assets that best serve the needs of our borrowers and investors."

The new vision and mission have been adopted by and fully deployed across all MCAP companies. Our management team and operating units are now focused on delivering excellent operating results consistent with our new vision and mission.

A NOTE ABOUT FORWARD-LOOKING STATEMENTS

This annual report contains forward-looking statements about MCAP. A forward-looking statement is subject to risks and uncertainties that may be general or specific. A variety of factors, many of which are beyond MCAP's control, affect the operations, performance and results of MCAP, and could cause actual results to differ materially from the expectations expressed in any of MCAP's forward-looking statements. These factors include current, pending and proposed legislative or regulatory developments; intensifying competition, resulting from established competitors and new entrants in the financial services industry; technological change; capital market activity, including interest rate fluctuation and general economic conditions; changes in market rates and prices which may adversely affect the value of financial products; and MCAP's success in managing the costs associated with the expansion of existing distribution channels, developing new ones and realizing increased revenue from these channels. This list is not exhaustive of the factors that may affect any of MCAP's forward-looking statements. These and other factors should be considered carefully and readers should not place undue reliance on MCAP's forward-looking statements. MCAP does not undertake to update any forward-looking statement that is contained in this annual report.

Operational Business Segments

As part of its strategic planning process, the Company also redefined its primary business segments and related activities. MCAP operates in three key business segments: Investing, Mortgage Operations and Leasing Operations.

Operations – Income Sources

INVESTING

Activities

- Asset and Liability Management
  - Mortgages
  - Leases
  - Marketable Securities
  - Cash
  - Debentures
  - Hedging
- Credit Management
- Securitization

MORTGAGE OPERATIONS
residential, residential construction, commercial

Activities

- Origination
- Underwriting
- Funding
- Servicing
- Mortgage Trading

LEASING OPERATIONS

Activities

- Origination
- Underwriting
- Funding
- Servicing
- Securitization
- Asset Management

Investing

The Company's investing operations include asset and liability management, which utilizes the capital and leverage capabilities of MCAP Inc. These investing activities are managed by the risk management function, which oversees all risk decisions in all investing, operational and investment banking initiatives including MCAP's financing and asset acquisition activities.

Mortgage Operations

The mortgage operations generate fee income from the origination, underwriting, funding and servicing of single-family residential mortgages, residential construction mortgages and commercial mortgages. The single-family residential operations are conducted through our 20 percent owned affiliate, MCAP Service Corporation (MSC). Residential construction and commercial operations are conducted in MCAP Financial Corporation (MFC), MCAP Commercial Limited Partnership (MCLP) and Canada ICI Commercial Mortgages Inc.

Leasing Operations

The Company's leasing operations are conducted through our wholly owned subsidiary, MTC Leasing Inc. (MTCL), a small ticket equipment leasing company with a client base across Canada. MTCL originates, underwrites, funds, services and securitizes leases. In 2003, the Company intends to expand its leasing operations into certain mid-size equipment leasing markets. MTCL intends to expand its lease servicing business by acquiring lease servicing contracts, thereby growing lease assets under administration in 2003. These particular market segments are currently under-serviced and MCAP believes that our leasing operations can capitalize on these opportunities.

Business Developments

The strategic partnership with BCLP and CDP Capital has enabled MCAP to expand its business. This new strategic relationship brought with it new capital ($7.2 million) and debt financing ($20 million) for the Company. With this financing in place, the Company completed the acquisition of Canada ICI's origination and servicing businesses. Since Canada ICI is the largest independent commercial origination group in Canada, this acquisition has dramatically increased the Company's origination fee income and provided a flow of commercial mortgages for direct investment and mortgage operations. In addition, Cadim Inc. has provided MFC with a $200 million standby loan facility that will be primarily used to support securitization programs of the Company, affording further expansion of our fee business. Furthermore, Bentall Capital Limited Partnership (Bentall) and MCAP are involved in businesses that complement one another, and this leads to mutually beneficial opportunities. Bentall is primarily involved in real estate equity markets through direct property ownership and/or the management of direct property investments on behalf of other investors, while the MCAP group of companies is involved in the real estate debt markets as a principal lender or as the agent of institutional investors.

In order to capitalize on the growth in our origination and servicing operations, it is critical for the Company to continue to foster and expand relationships with our funding institutions. By the end of 2002, with this goal in mind, the Company was in the final stages of completing a new securitization program for floating rate residential construction loans. In addition, the Company reached a contractual agreement to supply residential loans to another major Canadian financial institution. MCAP continues to develop new investor/funder relationships in the pension, insurance and banking industries. With clients that include a number of Canada's largest institutions, the Company continues to cultivate new funding prospects and explore further securitization opportunities for our other mortgage and leasing products.

With $15 billion in mortgage and lease assets under administration in the MCAP Group, the Company closely monitors its ability to deliver superior service to its borrowers and investors. In independent surveys with client groups of borrowers and investors, MCAP has achieved consistent ratings for providing high quality service. As further evidence of its ability to meet high standards of service, its residential servicing business attained an "Above Average" rating from

Standard & Poor's in 2002. MCAP also monitors the reliability of its internal controls; consequently, the Company authorizes an annual assessment of its internal controls by an independent third party, and reports these findings to the investor community. During December, the Company engaged Standard & Poor's to undertake a rating of its Commercial Mortgage Servicing Operations. These results will be available in the first quarter of 2003.

MCAP makes considerable investments to maintain high standards in business processes, technology, and corporate governance. Our clients are highly regulated institutions so it is imperative that our business practices meet and exceed the scrutiny of all regulators. Our commitment to operational excellence is a unique differentiating factor that sets the MCAP group of companies apart from other mortgage and leasing service providers.

Results from Operations

Earnings for the year ended December 31, 2002 were $5.4 million, down $1.4 million from 2001. Earnings per share were $0.58, versus $0.85 per share in 2001, a decline of 31.8 percent. The pre-tax return on average equity was 10.76 percent, versus 14.88 percent in the previous year. During the year, shareholders' equity increased from $48.1 million to $58.4 million, as a result of the issue of share capital and warrants totalling $11.1 million, offset by a decline in retained earnings of $0.9 million. Retained earnings were lower because the Company paid dividends of $0.68 per share, which exceeded the $0.58 earnings per share.

The business fundamentals of the core operations remain strong and the activities undertaken in 2002 are expected to result in higher long-term profitability. The Company continued to achieve steady results from its mortgage trading activities and from prudent management of the marketable securities portfolio. The Company achieved gains on sales from mortgages of $2.3 million, compared to $2.6 million in 2001 and marketable securities gains of $1.2 million, compared to $0.9 million in 2001.

Net Investment Income

Net investment income improved due to higher leasing income, strong marketable securities gains and further improvement in equity earnings from the Company's single-family residential affiliated operations.

Investing Operations

Investment income earned from lease operations increased from $2.2 million in 2001 to $5.1 million in 2002. The Company recognized a full year of MTCL results in 2002 but only five months in the comparative figures from the prior year, since the leasing operations were acquired in August 2001. Marketable securities income (distributions and realized gains) of $3.0 million increased 30.4 percent over $2.3 million the year before. In addition, the marketable securities portfolio ended the year with unrealized gains of $0.8 million.

Equity income from partly owned companies improved 25.0 percent to $961,000 from $769,000 in 2001 as a result of continued strong performance of the single-family residential operations of MSC and MCAP Mortgage Corporation (MMC). The Company's earnings from net mortgage interest declined from $5.9 million in 2001 to $5.6 million in 2002. Average mortgage balances increased to $197.5 million in 2002, compared to $195 million in 2001. The Company sold a portfolio of mortgages in the fall of 2001 and as a result started 2002 with lower balances. In addition, average yields declined to 6.58 percent from 7.85 percent in 2001. This occurred due to the 175 basis point decline in the average prime rate from 2001 to 2002, which in turn reduced the interest spread on our floating rate business.

Credit Risk and Provisioning

The provision for loan losses arising from the mortgage portfolio was $519,000, compared with the loan loss provisions of $436,000 in 2001. Of the total provision, $24,000 was allocated to loan loss exposures that had been identified, and the balance of $495,000 was applied to the general allowance for loan losses, which represents 1.0 percent of risk-weighted assets. This percentage was unchanged from last year. The growth in the general allowance is directly related to the increase in the mortgage portfolio on the balance sheet, which occurred in the fourth quarter. The Company continued to experience low levels of write-offs averaging 8 basis points (bps) on average mortgage balances compared to 6 bps in the prior year.

In 2002, arrears levels were 0.92 percent, a decrease from the level of 3.17 percent in 2001. Net impaired loans ended the year at 0.89 percent of the total loan portfolio, a reduction from 2.8 percent in 2001. MCAP continues to proactively monitor loan arrears and to take prudent steps to collect overdue accounts. Provided that real estate markets remain stable, Management does not expect an increase in loan loss experience in 2003.

The provision for losses from leases was $395,000 during the year, compared with $358,000 in 2001. Of the total provision, $163,000 was applied to the general allowance for lease losses, reflecting the growth in the portfolio. The balance of $232,000 was allocated to identified lease losses, bringing the net non-performing balance to 0.52 percent of the total lease portfolio at the end of 2002, compared with 0.60 percent at the end of 2001. Write-offs in 2002 were consistent with 2001 results at 1.1 percent of the average lease portfolio while arrears (defined as accounts outstanding over 30 days) declined to 0.64 percent at the end of 2002, from 0.97 percent at the end of 2001.

Fee Income

Fee income derived from the mortgage and lease origination and administration businesses of MFC and its subsidiaries and joint venture operations contributed $13.2 million, down 4.1 percent from $13.7 million a year earlier.

Mortgage Operations

The Company recognizes fee income from origination, underwriting and servicing of residential construction and commercial loans. Total fees generated from this business were $17.5 million, an increase of $4.7 million from $12.8 million a year earlier. The Company's share of these fees was $9.6 million versus $10.6 million in 2001. Total new residential construction commitments of $771 million exceeded the prior year of $697 million by 10.6 percent. New housing starts in Canada ended 2002 at 204,857 units, an increase of 25.9 percent over 2001. This led to an $85 million increase in residential construction loans under

administration to $465 million by the end of 2002. The primary markets for this business are in Toronto, Calgary and Vancouver. Low interest rates and strong economic activity in these three primary regions continue to fuel growth in this business.

Commercial loan origination fees of $5.0 million earned from the Canada ICI operations significantly exceeded the $0.6 million earned by MCLP in 2001. The Company's share of these fees was $2.5 million versus $0.3 million in 2001. This origination business strategically complements our other commercial and residential construction businesses. Management expects fees from commercial loan origination to increase in 2003 if the market remains stable.

Fees earned from the commercial mortgage servicing business declined 5.9 percent from $3.6 million in 2001 to $3.4 million in 2002. The Company's share of these fees was $1.7 million versus $1.8 million in 2001. The average mortgage assets under administration increased from $2.1 billion in 2001 to $4.2 billion in 2002. The average net servicing fee rate dropped from 15 bps in 2001 to 8 bps in 2002, as a portion of the new mortgage assets under administration were from purchased business. While the gross servicing rate was constant year-over-year, the amortization of the cost of purchased business reduces the overall yield from these contracts. In addition, other fees earned from our collection and default management activities declined in 2002. For MCAP's commercial servicing business, 2002 was a year of integration and transition as multiple new mortgage portfolios and related procedures, processes and staff were combined into a new operation with common policies, procedures and practices. With the new funding and borrowing relationships established through the acquisition of the TD and Canada ICI portfolios, Management expects to significantly grow the mortgage assets under administration and related fees. Furthermore, the Company is cultivating new relationships in this market, and this is expected to improve volumes.

Leasing Operations

The Company's leasing operations performed well in 2002, generating fees of $1.8 million, an increase of $1.1 million over fees of $0.7 million earned in 2001. It should be noted that 2001 results include only five months of operations since the leasing operations were acquired in August. In 2002, Canadian business investment in machinery and equipment started the year slowly but improved through the latter half of the year. This was a key driver for the leasing business, which demonstrated a similar pattern of earnings. The leasing industry is undergoing dramatic change, similar to that which took place a few years ago in the mortgage industry. Brokers are gaining market share in new originations, and consolidation is taking place among leasing companies with marginal operations. As the industry attempts to deal with these changes, we believe new and unique opportunities exist to meet niche markets and dramatically grow our business.

The Company's leasing operations ended the year with strong activity and we expect continued growth in 2003. The current operations can manage significant growth with the existing infrastructure. The leasing business is very well positioned to seize opportunities and grow revenues in this consolidating but vibrant industry.

Operating Expenses

Consolidated operating expenses increased by $1.1 million to $21.0 million in 2002. Expenses as percentage of revenue from operations were 79 percent, compared to 75 percent in 2001. This increase related directly to additional staffing and costs associated with the integration of Canada ICI. Other expenditures new in 2002 arose from costs to support corporate governance and compliance initiatives. Revenues associated with integration and acquisition activities tend to trail integration expenditures. As revenue levels improve, with the completion of the integration activities, Management expects this ratio to improve in 2003. Overall, the number of employees increased from 166 (449 for the MCAP Group) in 2001 to 216 (552 for the MCAP Group) in 2002, as a result of the acquisition of Canada ICI. As stated earlier, the Company is committed to set itself apart from the competition by investing in its people, technology and corporate governance.

Operational excellence is critical to our business foundation. During 2002, the Company introduced two significant technology solutions to the business. These initiatives will permit the Company to increase capacity at a reduced cost. Our single-family residential operation launched the Mercury™ mortgage front-end system, which links new loan applications to the back-end administration system. The leasing operations launched a new front-end system, Express OS™, which introduced on-line application processing, credit adjudication and transaction processing, and an interface through to the lease administration system, ASSET™. These enhancements streamline the application process, reduce decision times and improve client satisfaction.

Affiliated Companies

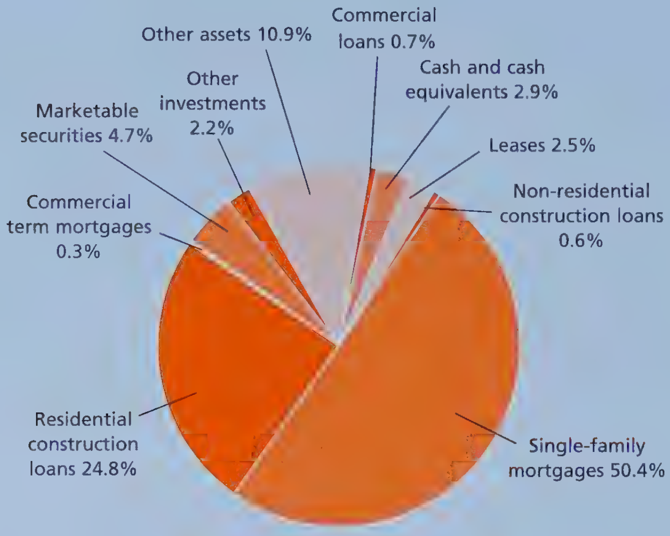
Our affiliated operation, MSC, contributed $961,000 in 2002, a 33 percent improvement over 2001. Total Canadian residential mortgage credit exceeded $475 billion, which fuelled record revenue and profit in our residential single-family mortgage operations. In October of 2002, the single-family operations exceeded $10 billion of assets under administration. Equity income in 2001 included $43,860 from MTCL for the period of January to July. For 2001, earnings for MTCL for the first seven months of the year were captured under Other income. Thereafter, the earnings of MTCL were consolidated with those of the Company. The improvement in earnings is a result of increased origination fees and assets under administration, combined with effective control of operating costs.

Financial Position

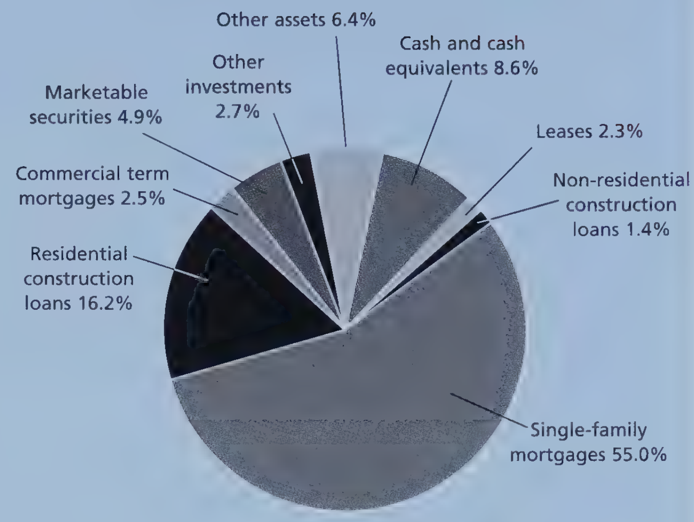
Total assets at December 31, 2002 were $327 million, an increase of 46.8 percent compared to total assets of $222 million in 2001. This increase was primarily due to leveraging the capital raised in February. Assets remain well diversified by type, geography, obligor and duration.

Shareholders' equity increased 21.3 percent year-over-year from $48.1 million to $58.4 million at December 31, 2002 due to $9.95 million of new share capital, $2.2 million of warrants, offset by $1.08 million of share issue costs and a $0.9 million reduction in retained earnings. The reduction in retained earnings is due to dividends paid out in excess of earnings, when the Company decided to maintain the dividend pattern set in prior years despite the decline in earnings.

Asset mix at December 31 was as follows:



2002



2001

Cash equivalents include treasury bills, bank deposits and commercial paper. These investments ensure adequate liquidity to meet maturing debenture and new mortgage commitments.

Marketable securities comprise a diversified portfolio of real estate investment trusts, income trusts, royalty trusts and bonds. These investments are matched by the Company's equity base and improve returns and the diversification of the Company's investment portfolio. The Company's investment policy limits marketable securities investment to $30 million.

Single-family mortgages include uninsured mortgages with a loan-to-property value of 75 percent or less and insured mortgages over 75 percent of property value. Mortgages are typically granted for terms of six months to five years and can be funded by debentures with similar maturities.

Residential construction loans are made to homebuilders in residential construction projects. These loans generally have a floating rate of interest and terms of one to two years. The Company's limit on conventional construction loans is 200 percent of regulatory capital. Non-residential construction loans may comprise up to one half of this limit. The maximum single conventional construction loan may not exceed $12 million.

Commercial term mortgages secure commercial properties and have a loan-to-property value of 75 percent or less. These mortgages have terms ranging from six months to five years. The Company limits its investment in these assets to 100 percent of regulatory capital. The maximum single commercial term mortgage may not exceed $5 million.

Other investments include the equity investment in MSC, a single-family mortgage origination and servicing company, and other companies within the mortgage industry that are of strategic interest to the Company.

Other assets include accounts receivable, fixed assets, tax assets, goodwill and intangible assets.

Funding

The Company issues debentures, insured by Canada Deposit Insurance Corporation (CDIC), largely to individuals. The Company matches the term of its assets with its liabilities; matching helps ensure that earnings will not be materially affected as a result of changes in interest rates. Note 18 to the financial statements displays the balance sheet sensitivity to interest rate changes. Through its practice of interest rate risk offsetting, the Company is positioned to withstand changes in interest rates.

Capital Adequacy

The Company has two significant capital tests that must be closely monitored. As a mortgage investment corporation, the Company is limited by the Income Tax Act (Canada) to a liability to assets in excess of liabilities test of 5:1, based on its unconsolidated balance sheet at tax values. The Office of the Superintendent of Financial Institutions granted the Company, as a federally regulated financial institution, a 9:1 consolidated assets to regulatory capital ratio, effective December 28, 2001.

The Company operates and manages its balance sheet to the 5:1 liability test as it is the most constraining on operations. The Company's lower leverage combined with its relatively conservative asset mix reduces the risk of cyclical earnings or loss of book value.

Liquidity

The Company closely monitors its liquidity position to ensure it has sufficient cash to meet liabilities as they become due. In general, the Company maintains liquid investments in excess of 20 percent of debentures maturing within 100 days. In addition, all marketable securities and single-family mortgages are readily marketable within a one-to-three month time frame, thus providing the Company with added flexibility to meet liquidity needs. The Company has access to capital through its ability to issue CDIC insured debentures and access to capital markets. MCAP's liquidity position and access to capital enables the Company to meet current and future commitments and there are no contingencies or known events that are likely to materially affect our position.

Risk Management

The Company is growing rapidly and operates in a constantly changing regulatory and economic environment. As a result, the Company's Management and the Board of Directors are particularly diligent in their consideration of all issues of risk. The Company's goal is not to eliminate risk, as this would result in significantly reduced earnings, but rather to be proactive in our risk assessment and management of risk, to gain a strategic advantage and ultimately drive enhanced shareholder value.

The Company views and assesses risk on an enterprise-wide level. The Company recognizes that to manage the business effectively, the enterprise risk management processes needs to be an integral part of the MCAP culture.

The Company's definition of enterprise risk management includes three principal focal points:

- Controlling the impact of adverse events on the Company;
- Managing the inherent uncertainties that impact the achievement of its operational performance; and
- Pursuing opportunities to achieve a competitive advantage and increase shareholder value.

In 2001, the Company moved to implement a comprehensive enterprise risk management framework. A new Enterprise Risk Management Department is responsible for planning, directing and controlling the impact on MCAP of risks arising from its operations. This function reports to the Chief Risk and Investment Officer.

The Company's focus on enterprise-wide governance and management stresses that responsibility for the quality of processes, policies, procedures, controls and internal reporting belongs to Senior Management on a day-to-day basis and oversight and guidance rests with the Board of Directors.

The Company is exposed to a number of risks that can adversely affect its ability to achieve its business objectives or execute its business strategies, or may result in a loss of earnings, capital or reputation. The Enterprise Risk Management Department, working with the other risk management control functions, has developed a comprehensive, systematic and disciplined risk management process for proactively identifying, assessing, managing and controlling the significant strategic, business and process level risks inherent in our business strategy and operations at any point in time.

The Company is exposed to various operational risks, particularly interest rate risk and credit losses. The Company mitigates these risks through diligent management of assets and liabilities and by investment diversification. The Company fosters a "risk management culture" wherein the individual who manages a business activity is expected to identify, assess and manage the significant risks associated with the activity.

Credit losses occur when a borrower fails to meet its obligations to the Company and the value realized on sale of the underlying asset deteriorates below the loan amount. All personnel are subject to limits on their ability to commit the Company to credit risk. Credit and commitment exposure is closely monitored through a reporting process that includes a formal quarterly review involving Senior Management and the Investment Committee of the Board of Directors.

Furthermore, the Company's exposure to credit risk is managed through risk management policies and procedures that emphasize the quality and diversification of the Company's investments. The Company's policies establish limits on concentration by asset class, rating, geographic region, dollar limit and borrower. By managing and matching the terms of mortgages and debentures so that they offset each other, the Company reduces risks associated with interest rate changes. The Company's Asset and Liability Management Committee reviews and manages this risk on a weekly basis. Management reports to the Board of Directors quarterly on its compliance with the Company's matching criteria.

Market risk on marketable securities is managed through prudent investment selection and diversification by security and industry.

Regulatory Compliance

The Chief Compliance Officer ensures that Management understands the impact of all relevant legislation affecting the business, assesses compliance with current and pending legislation and works with Management to address any gaps in policies and procedures. During 2002, the Company launched its Legislative Compliance Management System that ensures all managers assess their compliance with relevant legislation on a semi-annual basis. The Chief Compliance Officer and Vice President of Enterprise Risk Management liaise with regulators to keep them apprised of Company progress and changes to its business. The Chief Compliance Officer reports quarterly to the Chairman of the Conduct Review and Corporate Governance Committee of the Board of Directors.

Internal Audit

During 2002, the Company established an Internal Audit function headed by the Chief Audit Officer, who has unrestricted access to the Company operations, Senior Management and the Chairman of the Audit Committee of the Board of Directors. The Chief Audit Officer performs an evaluation of business risk and then undertakes internal audits of those areas that are deemed to be of greatest risk. The Chief Audit Officer audits the effectiveness of internal control procedures of the Company and conducts independent assessments of the Enterprise Risk Management function and the effectiveness of the Chief Compliance Officer. The Chief Audit Officer reports quarterly to the Audit Committee of the Board of Directors.

In addition, the External Auditors review the effectiveness of internal controls to the extent necessary to conduct an audit of the annual financial statements, and they report to the Audit Committee of the Board of Directors semi-annually on matters that come to their attention.

Ultimately, risk management is controlled at the highest level of the Company. The Board of Directors reviews and approves all risk management policies and procedures with respect to asset and liability mismatch risk, liquidity risk and credit risk. Without exception, all other key risk exposures are reported to the Board of Directors by Management.

Community Involvement

MCAP is committed to giving back to the communities in which it does business, mainly through supporting two worthwhile charitable organizations, the United Way and Habitat for Humanity. We support the goals of these organizations, both of which are dedicated to providing a better quality of life for those members of society who need a helping hand.

Every year, MCAP employees across Canada actively campaign for the United Way. The Company fully supports the time and the efforts contributed by its employees, and shows commitment by matching employee contributions to the program, dollar-for-dollar.

Habitat for Humanity is involved in constructing and providing houses to eligible families who might not otherwise be able to afford to own a home. MCAP provides financial and staff support for the construction of housing. Last year, the Company co-sponsored one home in Toronto and participated on a number of building sites.

Outlook

The Company added a critical piece to the business in 2002 with the addition of the Canada ICI Group. With this addition, MCAP is a complete service provider in each of our chosen markets. Over the past year, the Company spent time and resources integrating this new line of business. In 2003, the focus will be on generating long-term sustainable earnings in each of our core businesses. While the magnitude of growth is dependent on the Canadian economy, MCAP is well positioned to make incremental profit as our volumes increase.

The Company's vision, "To be the first choice for financial solutions in our chosen markets", inspires confidence and pride. We intend to choose our markets carefully and strategically. MCAP will not simply grow for the sake of growing. Since the Company's goal is long-term sustainable earnings, we will focus on activities that provide stable growth and calculated, acceptable risks. If we are currently in a market or choose to enter a market, it is our goal to be our customer's first choice because of the quality of our service and the strength of our reputation.

MCAP has some of the most experienced staff in the industry. Our customers do business with MCAP because of the speed and quality of our service, our breadth of access to capital markets and our ability to originate, underwrite, fund and service mortgage and leasing products in a seamless and professional manner. These are some of our primary strengths. The Company will continue to grow its fee-based revenue, which is driven by increased origination volumes and higher assets under administration. MCAP will also continue to grow our mortgage trading volumes and net investment income earned from increased assets on our balance sheet. There are opportunities to grow our leasing business immediately in certain under-serviced markets and we are excited about the potential of these opportunities.

The commercial mortgage market remains competitive and directly dependent on the Canadian economy. Investor appetite to fund commercial loans varies. In addition, industry consolidation in the life insurance business and potential bank mergers will no doubt have an impact. MCAP has the leading commercial origination group in the country and maintains numerous relationships with institutional lenders. The changes and consolidation ahead in the industry bring risk, but just as surely will present opportunities. For example, as large life insurance institutions reorganize and outsource non-core business lines, there are opportunities for MCAP to provide services.

The residential construction lending business remains competitive and complex. MCAP has an experienced group in this area and is well positioned to compete and grow this business. With the addition of a construction loan securitization vehicle, this business can remain strong and competitive. There are also opportunities for this business to benefit from the borrowing and funding relationships of the Canada ICI Group.

The Company has continued to enjoy excellent results in the single-family residential businesses of MSC and MMC. Continued low interest rates and strong new housing and resale markets have fuelled record volumes. The competition in this market has increased as borrowers are using mortgage brokers and direct on-line banking as alternative ways to reduce their borrowing costs. Furthermore, banks and lending institutions are exploring non-traditional ways to distribute and service their products in order to reduce costs and increase their customer base. MCAP has benefited from these changes. The Company has a large network of broker relationships and the growth in this market has increased our market share.

MCAP will focus on profitable and stable growth in the coming year. Our relationship with BCLP and CDP Capital will only serve to enhance our opportunities. MCAP will explore these opportunities and pursue those with acceptable risk, which support the Company's strategic plan and are expected to add long-term shareholder value. MCAP has an exceptional management team and staff, and with the support of the Board of Directors we expect to continue to provide service and results that exceed expectations. MCAP is proud of its history and excited about the future.

2002 Consolidated Financial Statements
MCAP Inc.

MANAGERS' RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements of MCAP Inc. are the responsibility of management and have been approved by the Board of Directors. Management is responsible for the information and representations contained in these financial statements and other sections of the annual report. The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles.

Appropriate systems of internal control, policies and procedures have been maintained to provide reasonable assurance that the Company's assets are safeguarded and to ensure that financial information is both relevant and reliable.

The Superintendent of Financial Institutions Canada makes such examination and enquiry into the affairs of MCAP as he may deem necessary to satisfy himself that the provisions of the Loan and Trust Companies Act are being duly observed for the benefit of depositors and that MCAP is in sound financial condition.

The Board of Directors is responsible for ensuring that management fulfills its responsibility for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements. These responsibilities are carried out primarily through an Audit Committee of unrelated directors appointed by the Board of Directors. The Chief Audit Officer and Chief Compliance Officer review internal controls, control systems and compliance matters and have full and independent access to the Audit Committee.

The Audit Committee meets periodically with management and the external auditors to discuss internal control over the financial reporting process, auditing matters and financial reporting issues. The Audit Committee reviews the consolidated financial statements and recommends them to the Board of Directors for approval. The Audit Committee also recommends to the Board of Directors and Shareholders the appointment of external auditors and approval of their fees.

The consolidated financial statements have been audited by the Company's external auditors, Ernst & Young LLP, in accordance with Canadian generally accepted auditing standards. Ernst & Young LLP has full and free access to the Audit Committee.

Derek Norton
President and Chief Executive Officer

L. S. Jenkins
Lorne S. Jenkins
Vice-President and Chief Financial Officer

AUDITORS' REPORT

TO THE SHAREHOLDERS OF MCAP INC. We have audited the consolidated balance sheets of MCAP Inc. as at December 31, 2002 and 2001 and the consolidated statements of income and retained earnings and cash flow for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2002 and 2001 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles, including the accounting requirements of the Superintendent of Financial Institutions Canada.

Ernst & Young LLP
Chartered Accountants

Toronto, Canada
January 20, 2003

Consolidated Balance Sheet

AS AT DECEMBER 31 *(dollars in thousands)*

	Note	2002	2001
ASSETS			
Investments			
Cash and cash equivalents	3	**$ 9,436**	$ 18,940
Mortgages	4	**250,935**	167,145
Other investments	5	**30,743**	21,996
		$ 291,114	$ 208,081
Accounts receivable	7	**5,189**	4,240
Capital assets	8	**5,778**	3,615
Goodwill and intangible assets	9	**8,722**	3,177
Loans receivable	11	**8,452**	-
Other assets	12	**7,294**	3,284
		$ 326,549	$ 222,397
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Debentures	13	**$ 222,619**	$ 153,646
Accounts payable and accrued charges	7	**16,171**	11,432
Loans payable	14	**11,935**	9,170
Subordinated debenture	15	**17,441**	-
		268,166	174,248
Shareholders' equity			
Share capital	16	**57,405**	46,321
Retained earnings		**978**	1,828
		58,383	48,149
		$ 326,549	$ 222,397

See accompanying notes

On behalf of the Board:

Derek Norton
President and Chief Executive Officer

David G. Broadhurst
Director, Chairman of the Audit Committee

Consolidated Statement of Income and Retained Earnings

YEAR ENDED DECEMBER 31 *(dollars in thousands except for per share amounts)*

	Note	2002	2001
Investment Income			
Mortgage interest income		$ 12,990	$ 15,303
Interest on cash and cash equivalents		1,113	2,042
Leasing income		5,129	2,204
Other income		6,265	5,643
		25,497	25,192
Financial Expenses			
Interest expense		7,489	10,212
Other expenses		2,281	2,015
		9,770	12,227
Net investment income		15,727	12,965
Fee income	19	13,152	13,720
Related interest and fees		(2,142)	-
Net fee income		11,010	13,720
Revenue from operations		26,737	26,685
Operating Expenses			
Salaries and administrative		16,948	16,885
Occupancy		2,696	1,920
Information systems		1,359	1,104
		21,003	19,909
Income before income taxes		5,734	6,776
Provisions for (recovery of) income taxes and large corporation taxes	17	304	(19)
Net income		$ 5,430	$ 6,795
Retained earnings, beginning of year		1,828	491
Dividends		(6,280)	(5,458)
Retained earnings, end of year		$ 978	$ 1,828
Earnings per share	21		
Basic		$ 0.58	$ 0.85
Diluted earnings per share		$ 0.56	$ 0.85
Dividends per share		$ 0.68	$ 0.68
Weighted average # of shares (000's)		9,407	7,978
Weighted average # of diluted shares (000's)		9,761	7,978

See accompanying notes

Consolidated Cash Flow Statement

YEAR ENDED DECEMBER 31 *(dollars in thousands)*

	2002	2001
Cash Provided by (used for):		
Operating Activities		
Net income	$ 5,430	$ 6,795
Adjusted for non-cash items:		
Equity income from partly owned companies	(961)	(769)
Provision for losses	1,003	944
Amortization of capital assets	1,828	874
Amortization of intangible assets	158	34
Amortization of other assets	1,106	430
Amortization of debenture discount	151	-
Amortization of mortgage premium/discounts	(34)	(11)
Future tax assets	(105)	(711)
Gain on sale of mortgages and leases	(3,590)	(3,240)
(Increase) decrease in non-cash working capital:		
Receivables	(949)	973
Creditors	4,642	923
Cash flows from operating activities	8,679	6,242
Investing Activities		
Marketable securities	(4,504)	(1,889)
Mortgage advances	(270,484)	(158,886)
Mortgage reductions	192,551	195,462
Mortgages held for resale	(4,160)	(4,099)
Investor loans	(254)	(283)
Leases	(2,188)	(676)
Dividends received from partly owned companies	-	42
Additions to capital assets	(3,991)	(762)
Additions to goodwill and intangible assets	(5,703)	(1,303)
Additions to other assets	(5,011)	(661)
Loans receivable	(8,452)	-
Cash flows (for) from investing activities	(112,196)	26,945
Financing Activities		
Increase in loans payable	2,765	2,949
Issue of subordinated debenture	17,290	-
Issue of debentures	462,834	428,769
Repayment of debentures	(393,861)	(460,707)
Issue of common shares and warrants	11,084	-
Dividends	(6,099)	(5,357)
Cash flows from (for) financing activities	94,013	(34,346)
Decrease in cash and cash equivalents	(9,504)	(1,159)
Cash and cash equivalents, beginning of year	18,940	20,099
Cash and cash equivalents, end of year	$ 9,436	$ 18,940
Supplementary Information		
Interest paid during the year	$ 11,061	$ 12,481
Taxes paid during the year	$ 1,043	$ 1,188

See accompanying notes

Notes to Consolidated Financial Statements

YEAR ENDED DECEMBER 31, 2002 *(dollar amounts in thousands except for share amounts)*

1. BASIS OF PRESENTATION

MCAP Inc. (the "Company") is a Loan Company under the Trust and Loan Companies Act [the "Trust Act"] and a Mortgage Investment Corporation under the Income Tax Act (Canada) [the "Tax Act"].

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, MCAP Financial Corporation (MFC), MCAP Securities Inc. and MTC Leasing Inc. (MTCL).

In August 2001, the Company acquired the 90% of the outstanding shares of MTCL that were not already held by the Company and its subsidiaries. As a result, these consolidated financial statements include the accounts of MTCL for the period August through December 2001 and all of 2002. Prior to August 2001, the Company's 10% interest in MTCL was recorded on the equity basis to reflect the Company's significant influence.

The results of MFC include 50% of the results of MCAP Commercial Limited Partnership (MCLP), a joint venture operation between MFC and Cadcap Inc. (Cadcap). Cadcap's interest was previously held by Crown Life Insurance Company (Crown Life). MFC is the general partner of MCLP.

The Company's 20% interest in MCAP Service Corporation (MSC) is accounted for using the equity method.

The purchase method has been used to account for all acquisitions. Intercompany balances and transactions are eliminated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As required under subsection 313 (4) of the Trust Act, these consolidated financial statements have been prepared in accordance with the requirements of the Trust Act, which states that, except as otherwise specified by the Office of the Superintendent of Financial Institutions Canada (OSFI), the consolidated financial statements are to be prepared in accordance with Canadian generally accepted accounting principles. The significant accounting policies used in the preparation of these consolidated financial statements, including the accounting requirements of the Superintendent, are summarized below. These accounting principles conform, in all material respects, to Canadian generally accepted accounting principles.

Measurement Uncertainty

Management of the Company exercises its best judgement with regard to certain estimates and assumptions, which affect the reported amounts of revenue, expenses, assets and liabilities. Specific amounts subject to such judgement are provisions for future credit losses, provisions for future administration costs and estimated residual realization values. Actual results could differ from Management's estimates.

Cash and Cash Equivalents

Cash and cash equivalents include balances with banks and short-term investments with maturity dates of less than 90 days from the date of acquisition. Cash and cash equivalents are stated at cost plus accrued interest.

Marketable Securities

Marketable securities are stated at cost less any write-down for decline in value which is other than temporary.

Mortgages and Mortgages Held for Resale

Mortgages held directly by the Company are carried at the cost amount outstanding plus accrued interest, less unearned income and an allowance for loan losses.

Mortgages held for resale by the Company as part of trading inventory are stated at estimated market values.

Impaired Loans

Interest on mortgages is accrued as earned until such time as a loan is classified as impaired. At that time, a specific provision is made to the allowance for loan losses to reflect Management's estimate of realizable amounts and the related provision is charged to income. Impaired loans are restored to an accrual basis when principal and interest payments in arrears become current and there is reasonable assurance as to ultimate collectibility.

Impaired loans include non-insured loans which are more than 90 days in arrears or are less than 90 days in arrears but for which Management does not have reasonable assurance that the full amount of principal and interest will be collected. An insured loan is considered impaired when the loan is 365 days past due, whether or not collection is in doubt.

Restructured Loans

Restructured loans are those loans where, because of the weakened financial condition of the borrower, the terms have been modified. These loans are carried at the net present value of future cash flows, discounted at the contractual interest rate in effect immediately prior to the restructuring. Restructured loans are not included in impaired loans if the borrowers have complied with the terms and Management has reasonable assurance that principal and interest under the new terms will be collected.

Real Estate

All real estate is acquired in settlement of loans and is carried at the lower of estimated realizable value or the loan amount, and any difference between this and the loan amount is charged to the allowance for loan losses.

Allowance for Loan Losses

An allowance for mortgage loan losses, consisting of specific and general provisions, is maintained at a level that, in Management's judgement, is adequate to absorb all credit related losses in the Company's portfolio. Specific provisions include all of the accumulated provisions for losses on particular assets required to reduce the related assets to estimated realizable value. The general provision includes provisions for losses which are prudent in nature and cannot be determined on an item-by-item basis.

The allowance is increased by provisions for losses which are charged against income, and reduced by write-offs net of recoveries. Write-offs are generally recorded after all reasonable restructuring or collection activities have taken place and the possibility of further collection is considered to be remote.

In Management's judgement, no abnormal credit risk exists and the levels of loan loss provisions are adequate to absorb all credit related losses in the Company's portfolio, given existing conditions.

Leases

Leases are recorded at their present value using the rate implicit at the inception of the lease. An estimate of future credit losses attributable to the leases is charged against income at lease inception.

Non-performing Leases

Lease contracts, which become more than 120 days in arrears, are declared non-performing and no further income is recorded on such contracts. Other contracts may also be declared non-performing such as in the case of insolvencies or bankruptcies. All non-performing leases are written down to their estimated net realizable value.

Recognition of Revenue and Expenses

(a) Fees received on mortgages are deferred and amortized into income over the term of the mortgage.

(b) Amounts received on the buy-down of mortgage interest rates are deferred and amortized over the term of the mortgage.

(c) Commissions paid on the sale of debentures are deferred and amortized over the term of the debenture.

(d) Mortgage administration fees are recorded as earned and are presented net of administration fees paid to other parties.

(e) Origination costs paid on the Company's mortgage portfolio are deferred and amortized over the term of the loan.

(f) Lease income is recognized on Company owned leases using the interest method. Unearned finance income is recognized in income by applying a constant interest rate.

Capital Assets

Capital assets are recorded at cost. Amortization is recorded at the following rates:

Furniture and fixtures	5 years straight line
Computer hardware	3 years straight line
Computer software	One year to five years straight line
Leasehold improvements	Lease term and one renewal

Expenses incurred for the development or enhancement of operating systems for which an economic benefit can be determined, are deferred and amortized over the expected benefit period, to a maximum of five years. Amortization commences when a significant project phase is completed. In 2002, the Company changed its method for amortizing capital assets from declining balance to straight line. The change has been treated as a change in estimate. The effect of this change in estimate is not material to the Company's opening retained earnings or the net income for the current period.

Future Tax Assets

The Company uses the liability method of tax allocation in accounting for income taxes. Under this method, future tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities, and measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Foreign Exchange

Foreign currencies are translated into Canadian dollars at year-end rates of exchange for monetary items and at exchange rates prevailing at the respective transaction dates for both non-monetary foreign assets and liabilities, and income and expense items.

Deferred Transaction Costs

Incremental transaction costs relating to the issue of debt, the issue of capital, business combinations and asset acquisitions are deferred to the extent the related transaction is "more likely than not" to proceed. Upon completion of the transaction, deferred costs relating to the issue of debt are deferred and amortized against the related financing, deferred costs related to the issue of capital are recorded as a capital transaction, and deferred costs related to business combinations and asset acquisitions are added to the cost of the related business or asset. If a transaction is abandoned, the deferred costs are expensed in the period.

Goodwill and Intangible Assets

The difference between the acquisition cost of a business acquisition and the fair value of the net tangible assets acquired is allocated first to intangible assets and the excess to goodwill. Servicing rights relating to acquired contracts are amortized over the term of the related contracts. Goodwill is not amortized. Intangible assets are considered impaired and are written down to their net recoverable amount when their net book value exceeds their estimated future net cash flows. Goodwill is considered impaired and is written down to fair value when the net book value of an acquired business exceeds its fair value. The carrying value of goodwill is reviewed annually or when an event occurs that "more likely than not" reduces the fair value of an investment.

Financial Instruments

The fair market value of financial items is approximately equal to recorded amounts unless otherwise disclosed.

The following methods and assumptions were used to estimate the fair value of the on-balance sheet financial instruments:

Financial Instruments Valued at Carrying Value
Due to their short-term maturity, the carrying values of cash equivalents, mortgages held for resale, accounts receivable and accounts payable approximate their fair values.

Marketable Securities
Fair values are based on quoted market prices, when available. If quoted market prices are not available, fair values are estimated using quoted market prices of similar securities.

Mortgages and Investor Loans
The fair values of mortgages and investor loans are estimated using a discounted cash flow calculation that uses market interest rates currently charged for similar mortgages and loans at December 31 to expected maturity amounts.

Real Estate
All real estate is acquired in settlement of loans and is carried at the lower of estimated realizable value or the loan amount. Accordingly, the fair value of real estate is its carrying value.

Leases
The fair value of leases is estimated using a discounted cash flow calculation that uses market interest rates currently charged for similar leases at December 31 to expected maturity amounts.

Debentures
The estimated fair values of debentures are determined by discounting the contractual cash flows, using market interest rates currently offered for deposits of similar remaining maturities.

Mortgage and Lease Sales

The Canadian Institute of Chartered Accountants issued Accounting Guideline 12, "Transfers of Receivables", effective July 1, 2001. Under the Guideline, a sale is recognized when the Company no longer controls the transfered assets.

The Company sells commercial leases and residential mortgage loans. In certain circumstances, the Company retains a deferred purchase price receivable, servicing rights, and in some cases a cash reserve account, all of which are retained interests in the securitized receivables. Gain or loss on sale of the receivables depends in part on the previous carrying amount of the financial assets involved in the transfer, allocated between the assets sold and the retained interest based on their relative fair value at the date of transfer. To obtain fair values, quoted market prices are used if available. However, quotes are generally not available for retained interests, so the Company generally estimates fair value based on the present value of future expected cash flows estimated using Management's best estimates of the key assumptions – credit losses, prepayment speeds, and discount rates commensurate with the risks involved.

The Company's policy is to periodically review the carrying value of the deferred purchase price receivable. When a decline in value is identified that is other than temporary, the affected carrying amount is written down to its fair value.

3. CASH AND CASH EQUIVALENTS

		2002		2001
Corporate cash and cash equivalents (overdraft)	$	**(648)**	$	(524)
Bankers' acceptance, term deposits and commercial paper		**9,547**		18,903
Accrued interest		**14**		22
	$	**8,913**	$	18,401
Trust assets		**25,107**		27,949
Trust liabilities		**(24,584)**		(27,410)
Excess trust assets	$	**523**	$	539
Cash and cash equivalents	$	**9,436**	$	18,940

The Company maintains trust accounts on behalf of the financial institutions it represents. These funds are used to fund mortgages for such entities as required. The unused funds are invested in short-term deposits and the excess of trust assets over trust liabilities represents the Company's undrawn fees, which are available to the Company.

4. MORTGAGES

		2002		2001
Conventional mortgages	$	**184,177**	$	151,830
Insured mortgages		**51,807**		4,262
Mortgages held for resale		**16,257**		12,005
		252,241		168,097
Accrued interest		**813**		648
		253,054		168,745
Less: Allowance for loan losses		**2,119**		1,600
	$	**250,935**	$	167,145
Fair market value	$	**253,667**	$	170,128

At December 31, 2002 and 2001 the Company did not hold any individual mortgage or counter party position in excess of 5% of total mortgages.

The details of the loan provisions are as follows:

2002								
Allowance for Credit Losses		Beginning of Year		Additions		(Write-Offs)		End of Year
Specific provisions residential mortgages	$	556	$	106	$	(82)	$	580
General provisions		1,044		572		(77)		1,539
	$	**1,600**	$	**678**	$	**(159)**	$	**2,119**

2001								
Allowance for Credit Losses		Beginning of Year		Additions		(Write-Offs)		End of Year
Specific provisions residential mortgages	$	132	$	455	$	(31)	$	556
General provision		1,032		104		(92)		1,044
	$	**1,164**	$	**559**	$	**(123)**	$	**1,600**

At December 31, 2002, the Company had $2,306 of impaired loans (2001 - $4,302).

Outstanding commitments for future fundings of mortgages intended to be held for resale are $15,571 at December 31, 2002 (2001 - $46).

Outstanding commitments for future mortgage fundings are $219,475 at December 31, 2002 (2001 - $66,401). Interest rates on future mortgages are determined at the time of commitment. Outstanding commitments range for periods of up to 4 months in duration and have maturities ranging from 6 months to 5 years with rates ranging from 3.71% to 8.5%.

5. OTHER INVESTMENTS

			2002		2001
Marketable securities	(a)	$	**15,452**	$	10,947
Leases	(b)		**8,149**		5,122
Investor loans	(c)		**3,725**		3,471
Filogix Inc.			**1,001**		1,001
Equity accounted investments			**2,416**		1,455
		$	**30,743**	$	21,996

(a) Marketable Securities

		2002		2001
Income, royalty and real estate investment trusts	$	**10,188**	$	10,947
Bond funds		**5,264**		-
	$	**15,452**	$	10,947
Fair market value	$	**16,210**	$	12,536

(b) Leases

		2002		2001
Leases at cost net of allowance for credit losses	$	**8,149**	$	5,122
Fair market value	$	**8,149**	$	5,122

The Company's subsidiary MTCL originates and securitizes equipment leases. MTCL retains an obligation to service lease contracts, retains certain credit risk and retains the right to unguaranteed residual values of leased assets. MTCL provides allowances for credit losses, losses on unguaranteed residual values and administration costs, based on its experience.

2002								
Allowance for Credit Losses		Beginning of Year		Additions		(Write-Offs)		End of Year
Specific provisions	$	2,919	$	1,097	$	(865)	$	3,151
General provisions		1,294		163		-		1,457
	$	**4,213**	**$**	**1,260**	**$**	**(865)**	**$**	**4,608**

2001								
Allowance for Credit Losses		July 31, 2001		Additions		(Write-Offs)		End of Year
Specific provisions	$	2,577	$	654	$	(312)	$	2,919
General provision		1,278		16		-		1,294
	$	**3,855**	**$**	**670**	**$**	**(312)**	**$**	**4,213**

(c) Investor Loans

		2002		2001
Immigrant Investor Program	$	**3,629**	$	3,384
Accrued interest		**96**		87
	$	**3,725**	$	3,471
Fair market value	$	**3,883**	$	3,725

These loans are made to borrowers under the Quebec Immigrant Investor Program. These loans have a maturity of August 31, 2004, and bear interest of 7.33% per annum.

6. MORTGAGE AND LEASE SALES

During 2002 and 2001, the Company sold residential mortgage loans and commercial lease receivables. In certain of those transactions, the Company retained servicing responsibilities and subordinated interests. Their value is subject to credit, prepayment and interest rate risks on the transferred financial assets. Purchasers of mortgage loans have no recourse to the Company. Under the terms of sale of leases, a portion of the sale proceeds is held in a separate account or a letter of credit is provided on account of possible credit losses from the leases sold.

The following table sets out certain amounts recognized in the Company's consolidated statements related to mortgage and lease sales:

	Gain on Sales of Loans		Deferred Purchase Price Receivable		Cash Reserve Account		Servicing Liability	
	2002	2001	**2002**	2001	**2002**	2001	**2002**	2001
Residential mortgages	$ 2,341	$ 2,553	$ 1,527	$ -	$ -	$ -	$ -	$ -
Commercial leases	1,249	687	3,683	2,805	718	543	2,047	1,866

Of the total residential mortgage sales in 2002, 68% involved sales where the Company has a retained interest. This activity was not material in 2001.

The following table summarizes certain cash flows received from mortgage and lease sales for the years ended December 31:

	Residential Mortgages		Commercial Leases	
	2002	2001	**2002**	2001
Proceeds from sales	$ 129,045	$ 103,487	$ 40,757	$ 17,981
Receipt of deferred purchase price and servicing fees	$ 843	$ –	$ 1,331	$ 706

The following table sets out credit information related to the Company's securitized assets:

	2002		2001	
	Securitized Assets	Credit Losses	Securitized Assets	Credit Losses
Commercial leases	$ 66,541	$ 865	$ 57,687	$ 312

Residential mortgages were sold without recourse, therefore, there is no credit risk relating to the mortgages.

The Company's credit exposure to securitized lease assets as at December 31, 2002 is limited to deferred purchase price receivable of $3,683 (2001 - $2,805) and certain letter of credit deposits of $1,750 (2001 - $2,500).

The following table outlines the key economic assumptions used in measuring deferred purchase price and the sensitivity of the current value of the deferred purchase price as at December 31, 2002 to immediate 10% and 20% adverse changes in those assumptions. The sensitivity analysis is hypothetical and changes in each key assumption may not be linear. The sensitivities in each key variable have been calculated independently of changes in the other key variables. Actual experience may result in changes in a number of key assumptions simultaneously. Changes in one factor may result in changes in another, which could amplify or reduce certain sensitivities.

	Residential Mortgages	Commercial Leases
Deferred purchase price receivable	$ 1,527	$ 3,683
Impact of:		
Prepayment rate (%)	6%	0%
10% adverse change	$ 25	$ -
20% adverse change	$ 51	$ -
Interest rate (%)	-	5.5%
10% adverse change	-	$ 125
20% adverse change	-	$ 250
Expected credit losses (%)	-	2%
10% adverse change	-	$ 145
20% adverse change	-	$ 290
Discount rate (%)	5%	10.25%
10% adverse change	$ 15	$ 53
20% adverse change	$ 30	$ 105

7. ACCOUNTS RECEIVABLE/PAYABLE

(a) Accounts receivable

	2002	2001
Related party receivables - MMC	$ 147	$ 64
Other receivables	5,042	4,176
	$ 5,189	$ 4,240

(b) Accounts payable and accrued charges

	2002	2001
Accounts payable and accrued charges	$ 9,569	$ 8,687
Deferred revenue	5,779	2,307
Related party payables	823	438
	$ 16,171	$ 11,432

The Company purchases/sells certain corporate services and mortgage origination and loan administration services from/to MSC. During 2002, the Company purchased $6,152 (2001 – $4,894) and sold $1,528 of services (2001 - $541).

The Company sells certain corporate services to MCAP Mortgage Corporation (MMC). During 2002, the Company sold $980 of services (2001 – $553).

The Company purchases/sells certain corporate services from/to MCAP Commercial Limited Partnership. During 2002, the Company purchased $379 and sold $4,348 of services (2001 – sold $586).

Lease inducements with a carrying value of $1,550 net of amortization of $88 are included in accounts payable and accrued charges.

8. CAPITAL ASSETS

	2002		2001	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Furniture and fixtures	$ 2,919	$ 2,294	$ 2,368	$ 1,750
Computer hardware	2,248	1,501	1,559	1,090
Computer software	4,366	1,998	3,587	1,326
Leaseholds	2,453	489	480	287
Artwork	74	-	74	-
	$ 12,060	$ 6,282	$ 8,068	$ 4,453
Net book value	$ 5,778		$ 3,615	

9. GOODWILL AND INTANGIBLE ASSETS

	2002	2001
Servicing rights	$ 1,877	$ 959
Accumulated amortization	(205)	(47)
	$ 1,672	$ 912
Goodwill	7,050	2,265
	$ 8,722	$ 3,177

The servicing rights are amortized over 10 years, based on the maturity of the underlying mortgages.

10. ACQUISITIONS

On February 28, 2002, MCLP completed the acquisition of the Canada ICI Mortgage Services Group (Canada ICI). These consolidated financial statements include the Company's 50% proportionate share of the following amounts. The allocation of the purchase price is summarized below:

		2002
Cost of acquisition paid in:		
Acquisition costs	$	1,140
Cash to vendors		8,908
	$	**10,048**
Cost allocated to:		
Cash	$	253
Capital assets		270
Other assets		47
Income tax liabilities		(92)
Goodwill		9,570
	$	**10,048**

The purchase of Canada ICI was satisfied through an initial payment of $8,908. The Purchase and Sale Agreement includes contingent payments in cash and shares of the Company based on the operating results of the acquired business over the next three years. If subsequent contingent payments are made, there will be an adjustment to the purchase price and goodwill.

Related to this acquisition, MCLP acquired commercial loan servicing rights for $1,835. The Company's proportionate share of these servicing rights is being amortized on a straight line basis over 10 years, the maturity of the underlying mortgages.

On August 1, 2001, the Company completed the acquisition of 90% of the outstanding shares of MTCL. The balance of MTCL's shares was already held by the Company. The allocation of the purchase price is summarized below:

		2001
Cost of acquisition paid in:		
Share capital	$	4,452
Shares held in escrow		(585)
Cash		357
	$	**4,224**
Cost allocated to:		
Leases and other assets	$	3,366
Capital assets		673
Income taxes receivable		68
Liabilities		(1,502)
Long-term debt		(540)
Future taxes		(106)
Goodwill		2,265
	$	**4,224**

The total purchase price was satisfied through the issue of 593,602 common shares of the Company and cash payments of $357. Included in the total shares are 78,000 shares that are held in escrow. The release of these shares is contingent on the future earnings of MTCL. The value of these shares has been deducted from the total purchase price. If these shares are released from escrow, the Company will record an increase of $7.50 per share to the purchase price and a corresponding increase in share capital and goodwill.

11. LOANS RECEIVABLE

		2002		2001
Loan receivable from MCLP	$	**5,171**	$	-
Accrued interest - loan receivable from MCLP		**488**		-
Receivable from MMC		**573**		-
Loan receivable from MSC		**2,220**		-
	$	**8,452**	$	-

The loan receivable from MCAP Commercial Limited Partnership represents the portion of the loans receivable by the Company which is not proportionately consolidated in these statements.

12. OTHER ASSETS

	Note		2002		2001
Prepaid expenses		$	**196**	$	202
Deferred origination expenses			**817**		229
Deferred start-up costs			**57**		141
Deferred financing costs	15		**2,880**		1,000
Future tax assets	17		**1,817**		1,712
Deferred purchase price receivable	6		**1,527**		-
		$	**7,294**	$	3,284

13. DEBENTURES

		2002		2001
Debentures	$	**218,908**	$	149,855
Accrued interest		**3,711**		3,791
	$	**222,619**	$	153,646
Fair market value	$	**225,765**	$	158,728

Debentures are issued to various individuals and institutions with original maturities ranging from 30 days to 5 years and bear interest at rates ranging from 1.50% to 6.45%.

14. LOANS PAYABLE

		2002		2001
(a) Bank of Montreal	$	**6,333**	$	9,025
(b) Bank of Montreal		**5,000**		-
(c) Royal Bank of Canada		**602**		145
	$	**11,935**	$	9,170

(a) The line of credit from Bank of Montreal includes a senior facility of $22,500 bearing interest at the cost of funds rate plus 50 bps and a subordinated facility of $2,500 bearing interest in an amount equal to 50% of the residual cashflow generated by the underlying mortgages acquired with the loan proceeds after payments of principal and interest on the senior facility and other expenses. This facility is due and payable upon demand.

(b) The line of credit from Bank of Montreal is a $10,000 facility bearing interest at prime plus 50 bps. This facility is due and payable upon demand.

(c) The Royal Bank of Canada loan is an operating line and bank overdraft provided to MTCL. The line of credit is a demand operating loan bearing interest at prime plus 85 bps. The total facility available is $4,550. MTCL has provided a general security agreement covering all of its assets as collateral for the demand loan.

15. SUBORDINATED DEBENTURE

On February 28, 2002, the Company arranged with Bentall Capital II Limited Partnership (BCLP) a $20,000 unsecured, subordinated debenture, convertible at any time into 50.1% of the outstanding shares of MFC. The interest on the debenture is calculated at 15% per annum, payable monthly in arrears, and the principal is due at the end of the 15 year term. In addition, Cadim Inc. has agreed to provide up to $200,000 of credit enhancement facilities for use by MFC in its mortgage securitization programs.

Relating to this financing the Company incurred $3,050 of financing costs and discounted the debenture $2,710. These costs are deferred and amortized on a straight line basis over the 15 year term of the debenture.

16. SHARE CAPITAL

The authorized share capital of the Company is unlimited common shares with no par value. Prior to June 28, 2001, the Company had authorized share capital of 15 million common shares with a par value of $10 per share.

Issued	#		2002	#		2001
Common shares	9,615,906	$	55,195	8,322,573	$	46,321
Warrants	3,400,000		2,210	-		-
		$	**57,405**		$	**46,321**

During 2001, the Company issued 593,602 common shares to satisfy the $3,867 purchase of MTC Leasing Inc., of which 78,000 shares are held in escrow.

During the year, the Company issued 960,000 common shares at $7.50 per share to BCLP and 333,333 common shares at $8.25 per share to Crown Life. The Company also issued 3,400,000 warrants to BCLP at $0.65 per warrant. The warrants are exercisable until February 28, 2007 at an exercise price of $7.50 per share.

The details of share capital transactions for the two years ended December 31, 2002 are as follows:

	Common Shares		Warrants	
Issued	#	$	#	$
Balance as at January 1, 2001	7,728,978	42,454	-	-
Issued	515,602	3,867	-	-
Issued and held in escrow	78,000	-	-	-
Redeemed	(7)	-	-	-
Balance as at January 1, 2002	8,322,573	46,321	-	-
Issued	1,293,333	9,950	3,400,000	2,210
Share issue costs	-	(1,076)	-	-
Balance as at December 31, 2002	**9,615,906**	**55,195**	**3,400,000**	**2,210**

Executive Stock Option Plan

During 2002, the Board of Directors established the Company's 2002 Executive Stock Option Plan (the "Stock Option Plan"). The aggregate number of common shares reserved for issuance under the Stock Option Plan is 416,129. The maximum number of common shares reserved for issuance under the Stock Option Plan is limited to 5% of the issued and outstanding common shares. There were no options issued during the year and at December 31, 2002, there were no options outstanding.

17. INCOME TAXES

		2002		2001
Income before income taxes	$	**5,734**	$	6,776
Less dividends		**(6,280)**		(5,458)
Income subject to tax		**(546)**		1,318
Statutory rate of tax		**39%**		39%
Tax provision before the following:		**(213)**		514
Equity income		**(375)**		(300)
Change in valuation reserve		**1,099**		(587)
Provision for large corporations tax		**160**		149
Rate change on opening balance		-		158
Non-deductible expenses and other permanent differences		**(367)**		47
Tax provision per financial statements	$	**304**	$	(19)

The details of the future tax assets (liabilities) are as follows:

		2002		2001
Loss carryfoward benefit	$	**1,430**	$	1,150
Provision for loan losses		**850**		1,024
Capital assets		**(373)**		(416)
Deferred revenue (costs)		**1,225**		(46)
Investment assets		**(216)**		-
Valuation reserve		**(1,099)**		-
	$	**1,817**	$	1,712

The Company is a Mortgage Investment Corporation under the Tax Act. As such, it is permitted to deduct from income for tax purposes dividends paid to shareholders during the year and within 90 days thereafter. The Company intends to continue conducting its affairs in such a manner as to continue qualifying as a Mortgage Investment Corporation under the Tax Act.

The Company's subsidiary, MCAP Financial Corporation, has loss carryforward amounts of $3,864 which will expire in 2008.

18. INTEREST RATE SENSITIVITY

Interest rate risk arises when principal and interest cash flows, both on and off balance sheet, including final maturities, have mismatched repricing dates. Interest rate risk, or sensitivity, is the potential impact of changes in interest rates on financial assets and liabilities.

An interest rate gap is a common measure of interest rate sensitivity. A positive gap occurs when more assets than liabilities reprice within a particular time period. A negative gap occurs when there is an excess of liabilities over assets repricing. The former provides a positive earnings impact in the event of an increase in interest rates during the time period. Conversely, negative gaps are positively positioned for decreases in interest rates during that particular time period. The determination of the interest rate sensitivity or gap position is based upon the earlier of the repricing or maturity date of assets, liabilities and includes numerous assumptions.

The gap position presented is measured at close of business on December 31, 2002. That position is subject to significant change in subsequent periods based on changes in customer preferences and in the application of asset/liability management policies.

Floating rate assets and liabilities are immediately sensitive to a change in interest rates while other assets are sensitive to changing interest rates periodically, either as they mature or as contractual repricing events occur. Non-interest rate sensitive assets and liabilities are not directly affected by changes in interest rates.

The following table presents the assets and liabilities of the Company by interest rate sensitivity:

	Less than 12 Months	1 to 5 Years	Over 5 Years	Non-Interest Sensitive	**2002 Total**	2001 Total
ASSETS						
Investments						
Cash	$ 9,436	$ -	$ -	$ -	**$ 9,436**	$ 18,940
Mortgages	158,839	86,173	3,868	2,055	**250,935**	167,145
Other investments	8,004	4,177	-	18,562	**30,743**	21,996
	176,279	90,350	3,868	20,617	**291,114**	208,081
Accounts receivable	-	-	-	5,189	**5,189**	4,240
Capital assets	-	-	-	5,778	**5,778**	3,615
Intangible assets	-	-	-	8,722	**8,722**	3,177
Loans receivable	2,708	-	5,171	573	**8,452**	-
Other assets	-	-	-	7,294	**7,294**	3,284
Total Assets	$ 178,987	$ 90,350	$ 9,039	$ 48,173	**$ 326,549**	$ 222,397
Yield	6.20%	6.37%	11.85%	-	**-**	-
LIABILITIES AND SHAREHOLDERS' EQUITY						
Debentures	$ 179,003	$ 43,616	$ -	$ -	**$ 222,619**	$ 153,646
Accounts payable	-	-	-	16,171	**16,171**	11,432
Loans payable	11,935	-	-	-	**11,935**	9,170
Subordinated debenture	-	-	17,441	-	**17,441**	-
Equity	-	-	-	58,383	**58,383**	48,149
Total Liabilities and Shareholders' Equity	$ 190,938	$ 43,616	$ 17,441	$ 74,554	**$ 326,549**	$ 222,397
Yield	3.10%	4.98%	17.20%	-	-	-
GAP	**$ (11,951)**	**$ 46,734**	**$ (8,402)**	**$ (26,381)**	-	-
YIELD SPREAD	**3.10%**	**1.39%**	**(5.35)%**	-	-	-

Mortgages with floating interest rate terms are included in assets which reprice within twelve months. The maturities of these assets are as follows: 12 months - $50,725 (2001 - $61,027) 1 to 5 years - $45,005 (2001 - $14,608).

19. FEE INCOME

Fees from origination and administration services of the Company were:

Joint Venture Level	**2002**	2001
MCLP		
Commercial loan servicing fees	**$ 3,412**	$ 3,626
Commercial loan origination fees	**4,990**	599
Construction loan origination and servicing fees	**7,456**	-
Total MCLP fees	**$ 15,858**	$ 4,225
Consolidated Level		
MFC and Subsidiaries		
Proportionately consolidated (50% of MCLP)	**$ 7,929**	$ 2,113
Partnership priority distribution	**(833)**	-
Construction loan origination and servicing fees	**1,650**	8,527
Leasing fees	**1,799**	710
Other fees	**2,607**	2,370
Consolidated fees	**$ 13,152**	$ 13,720

The Company participates in residential mortgage origination and administration through its equity in MMC and MSC.

20. SEGMENTED INFORMATION

The Company operates in three key business segments: investing, mortgage operations and lease operations. Investing operations include asset/liability management, risk management, credit and corporate banking. Mortgage operations generate fee income from the origination, underwriting, funding, servicing and mortgage trading of single-family residential, residential construction and commercial mortgages. Lease operations are in the Company's subsidiary, MTCL, and generate income from originating, underwriting and funding as well as sales and servicing of equipment lease receivables.

RESULTS OF BUSINESS SEGMENTS - 2002

Business Segments	Investing	Mortgage Operations	Lease Operations	Total
Investment income				
Interest income	$ 14,103	$ -	$ -	$ 14,103
Leasing income	-	-	5,129	5,129
Other income	2,963	2,341	-	5,304
MSC equity income	-	961	-	961
	17,066	**3,302**	**5,129**	**25,497**
Financial expenses				
Interest expenses	7,489	-	-	7,489
Other expenses	2,281	-	-	2,281
	9,770	-	-	**9,770**
Net investment income	**7,296**	**3,302**	**5,129**	**15,727**
Fee income	-	9,111	1,899	11,010
Operating expenses	4,019	12,032	4,952	21,003
Income before income taxes	3,277	381	2,076	5,734
Income taxes and large corp. taxes	122	94	88	304
Net income	**$ 3,155**	**$ 287**	**$ 1,988**	**$ 5,430**
Total assets	$ 285,907	$ 29,084	$ 11,558	$ 326,549
Amortization of capital assets	$ -	$ 1,560	$ 268	$ 1,828

RESULTS OF BUSINESS SEGMENTS - 2001

Business Segments	Investing	Mortgage Operations	Lease Operations	Total
Investment income				
Interest income	$ 17,345	$ -	$ -	$ 17,345
Leasing income	-	-	2,204	2,204
Other income	2,322	2,552	-	4,874
MSC equity income	-	769	-	769
	19,667	**3,321**	**2,204**	**25,192**
Financial expenses				
Interest expenses	10,212	-	-	10,212
Other expenses	2,015	-	-	2,015
	12,227	-	-	**12,227**
Net investment income	**7,440**	**3,321**	**2,204**	**12,965**
Fee income	-	12,868	852	13,720
Operating expenses	3,994	13,997	1,918	19,909
Income before income taxes	3,446	2,192	1,138	6,776
Income taxes and large corp. taxes	92	(419)	308	(19)
Net income	**$ 3,354**	**$ 2,611**	**$ 830**	**$ 6,795**
Total assets	$ 203,808	$ 10,026	$ 8,563	$ 222,397
Amortization of capital assets	$ -	$ 775	$ 99	$ 874

21. EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted earnings per share.

		2002		2001
Numerator for basic and diluted earnings per share available to common stockholders	$	5,430	$	6,795
Denominator for basic earnings per share- Weighted average shares outstanding (000's)		9,407		7,978
Effect of potentially dilutive securities:				
Warrants		354		-
Denominator for diluted earnings per share		9,761		7,978
Earnings per share				
Basic	$	0.577	$	0.852
Diluted	$	0.556	$	0.852

22. JOINT VENTURE OPERATIONS

The Company has a 50% interest in MCLP which is accounted for using the proportionate consolidation method.

A summary of the Company's proportionate interest in the joint venture at December 31, 2002 is as follows:

		2002		2001
Statement of Loss and Deficit				
Revenue from operations	$	7,767	$	2,207
Operating expenses		8,192		2,587
Priority distribution to other Partner		833		-
Net loss	$	(1,258)	$	(380)
Deficit, beginning of period		(560)		(180)
Distribution to Crown Life		(788)		-
Deficit, end of period	$	(2,606)	$	(560)
Balance Sheet				
Cash and cash equivalents	$	645	$	128
Goodwill and intangible assets		6,159		52
Other assets		3,274		868
	$	10,078	$	1,048
Accounts payable and accrued charges	$	4,422	$	297
Related party payable		2,103		72
Long-term debt		5,659		739
		12,184		1,108
Partners' capital		500		500
Partners' deficiency		(2,606)		(560)
		(2,106)		(60)
	$	10,078	$	1,048
Statement of Cash Flows				
Operating activities	$	2,979	$	(264)
Financing activities		3,981		739
Investing activities		(6,443)		(706)
Increase (decrease) in cash and cash equivalents		517		(231)
Cash and cash equivalents, beginning of period		128		359
Cash and cash equivalents, end of period	$	645	$	128

23. BORROWING AND CAPITAL RATIOS

The Company operates as a Mortgage Investment Corporation as defined under the Tax Act. Under the Tax Act, the Company's ability to accept deposits from the public is limited through the regulation of its borrowing ratio which is defined as the ratio of deposits and other borrowings to capital and reserves. The calculation of this ratio is determined on a non-consolidated basis and adjusted to cost for tax purposes. The maximum authorized borrowing ratio of the Company is currently 5.0. As at December 31, 2002 the ratio was 3.74 (2001 – 3.37).

The Company is regulated under the Trust Act. The Trust Act defines two tiers of capital and computes capital ratios in relation to risk-weighted assets. OSFI has issued guidelines to federally regulated companies for capital adequacy, which include meeting a minimum ratio of 10%. As at December 31, 2002, the ratio was 19.10% (2001 – 30.44%).

The second capital adequacy requirement of OSFI is an asset to capital multiple, which is calculated by dividing the Company's total consolidated assets by its total regulatory capital. The Company's required regulatory capital ratio is a maximum multiple of 9. As at December 31, 2002, the Company has a regulatory assets to capital multiple of 6.96 (2001 – 4.76).

24. HEDGING INSTRUMENTS

In the normal course of business, the Company enters into hedging transactions to manage market interest rate exposures on its unsold mortgage commitments and mortgages held for resale. Hedging gains and losses are expensed into income in the same year as sales of related mortgages occur.

The Company is subject to market risk, which represents the potential for changes in the value of assets and liabilities due to fluctuations in bond interest rates. The notional amounts of these hedges are:

Government of Canada Bonds (Reverse repurchase obligations)

	2002			2001		
Term (Years)	Notional Amount	Market Value	Unrealized Loss	Notional Amount	Market Value	Unrealized Loss
1 to 3	$ -	$ -	$ -	$ -	$ -	$ -
3 to 4	-	-	-	-	-	-
5 to 6	(4,270)	(4,271)	$ 1	-	-	-
Total	**$ (4,270)**	**$ (4,271)**	**$ 1**	**$ -**	**$ -**	**$ -**

Unrealized gains/losses on hedging instruments are offset by unrealized losses/gains on mortgages held for resale.

25. COMMITMENTS AND CONTINGENCIES

The future minimum annual lease commitments for premises are as follows:

2003	$ 3,658
2004	3,643
2005	3,316
2006	3,984
2007	3,221
Thereafter	19,519
	$ 37,341

The Company has an unsecured letter of credit facility issued from the Bank of Montreal in the amount of $25,000. The facility is available by way of letter of credit with a term of up to one year from the date of issuance, plus a renewal clause providing for an automatic one year extension at the maturity date subject to the Bank's option to cancel by written notice at least 30 days prior to the letters of credit expiry date.

The Company has a revolving letter of credit facility issued from the Bank of Montreal in the amount of $5,000. The facility is for the purpose of issuing letters of credit to secure the performance and completion of obligations by residential building companies to municipalities. The facility requires the pledging of cash and/or Government of Canada Treasury Bills to secure the letters of credit issued.

26. ASSETS UNDER ADMINISTRATION

Assets under administration consist primarily of leases and financial contracts as well as various construction and commercial loans and cash collateral accounts administered on behalf of investors. The Company earns origination and administration fees on these assets.

	2002	2001
Leases and financial contracts	$ 74,550	$ 67,920
Construction and commercial loans	4,309,930	3,658,210
Cash collateral and escrow	48,739	27,361
	$ 4,433,219	$ 3,753,491

27. RETIREMENT PROGRAMS

The Company has established retirement programs for its employees, including a group registered retirement savings plan (GRSP) and a deferred profit sharing plan (DPSP). The Company matches employee contributions to the GRSP to the following levels after one year of service. The maximum Company contributions are $6.75 per employee.

Years of Service	Percentage of Employee Earnings
1 - 5	2.5
6 - 10	5.0
11 and over	7.0

The Company makes additional contributions to the DPSP account of individuals who have been employed by the Company as at December 31, 1998 as follows:

Year of Service to MCAP and/or Clarica Life prior to December 31, 1998	Percentage of Employee Earnings
0 - 2	0.5
3 - 5	0.75 to 3.75
6 - 10	1.0 to 4.0
11 and over	1.25 to 4.25

The level of DPSP contribution also depends on the age of the employee at December 31, 1998.

The retirement program expenses recorded for the year ended December 31, 2002 were $275 (2001 - $262).

28. EMPLOYEE SHARE OWNERSHIP PROGRAM

The Company has established a share ownership program for its employees. The plan provides employees the opportunity to purchase shares of MCAP Inc. The Company matches employee purchases to the following levels:

Participating employees may purchase no less than 1% and up to a maximum of 6% of their annual base salary. The Company will match 50% of the purchase price, up to a maximum of 3% of the employee's annual base salary. The Company's contributions remain unvested until December 31st of the year they were purchased.

The employee share ownership program expenses recorded for the year ended December 31, 2002, were $92 (2001 - $54).

29. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified to conform to the presentation adopted in the current year.

Quarterly Information

(dollars in thousands except for per share amounts)

Income Statement	2002				2001			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Investment income								
Mortgage interest income	$ 3,690	$ 3,862	$ 2,930	$ 2,508	$ 3,249	$ 3,555	$ 4,221	$ 4,278
Interest on cash and cash equivalents	339	353	216	205	370	629	442	601
Leasing income	1,723	1,191	1,155	1,060	1,356	848	-	-
Other income	2,403	1,512	1,282	1,068	2,644	1,142	1,119	738
	8,155	**6,918**	**5,583**	**4,841**	**7,619**	**6,174**	**5,782**	**5,617**
Financial expenses								
Interest expense	2,053	1,981	1,856	1,599	2,101	2,703	2,694	2,714
Other expenses	977	332	532	440	478	553	634	350
	3,030	2,313	2,388	2,039	2,579	3,256	3,328	3,064
Net investment income	5,125	4,605	3,195	2,802	5,040	2,918	2,454	2,553
Fee income	3,213	3,027	2,853	4,059	3,735	3,019	3,902	3,064
Related interest and fees	(647)	(663)	(624)	(208)	-	-	-	-
Net fee income	**2,566**	**2,364**	**2,229**	**3,851**	**3,735**	**3,019**	**3,902**	**3,064**
Revenue from operations	**7,691**	**6,969**	**5,424**	**6,653**	**8,775**	**5,937**	**6,356**	**5,617**
Operating expenses								
Salaries and administrative	4,656	4,088	4,022	4,182	5,540	3,943	3,873	3,529
Occupancy	726	817	648	505	543	573	410	394
Information systems	355	260	350	394	206	328	327	243
	5,737	**5,165**	**5,020**	**5,081**	**6,289**	**4,844**	**4,610**	**4,166**
Income before income taxes	**1,954**	**1,804**	**404**	**1,572**	**2,486**	**1,093**	**1,746**	**1,451**
Provision for (recovery of) income taxes and large corporation taxes	(25)	125	41	163	54	(127)	190	(136)
Net income for the period	**$ 1,979**	**$ 1,679**	**$ 363**	**$ 1,409**	**$ 2,432**	**$ 1,220**	**$ 1,556**	**$ 1,587**
Retained earnings, beginning of period	$ 594	$ 550	$ 1,822	$ 1,828	$ 811	$ 1,006	$ 764	$ 491
Dividends	(1,595)	(1,635)	(1,635)	(1,415)	(1,415)	(1,415)	(1,314)	(1,314)
Retained earnings, end of period	$ 978	$ 594	$ 550	$ 1,822	$ 1,828	$ 811	$ 1,006	$ 764
Earnings per share	$ 0.21	$ 0.17	$ 0.04	$ 0.16	$ 0.30	$ 0.15	$ 0.20	$ 0.20
Diluted earnings per share	$ 0.20	$ 0.17	$ 0.03	$ 0.16	$ 0.30	$ 0.15	$ 0.20	$ 0.20
Dividends per share	$ 0.17	$ 0.17	$ 0.17	$ 0.17	$ 0.17	$ 0.17	$ 0.17	$ 0.17
Weighted average # of shares (000's)	9,616	9,616	9,616	8,768	8,323	8,123	7,729	7,729
Weighted average # of diluted shares (000's)	9,986	10,038	10,070	8,850	8,323	8,123	7,729	7,729

Quarterly Information

(dollars in thousands except for per share amounts)

Balance Sheet	2002				2001			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
ASSETS								
Investments								
Cash and cash equivalents	$ 9,436	$ 4,944	$ 31,954	$ 5,064	$ 18,940	$ 17,048	$ 19,129	$ 10,392
Mortgages	250,935	217,380	202,048	178,084	167,145	191,792	203,343	208,388
Other investments	30,743	29,858	29,593	23,727	21,996	20,273	14,435	14,943
	291,114	252,182	263,595	206,875	208,081	229,113	236,907	233,723
Accounts receivable	5,189	4,076	6,228	8,916	4,240	5,524	4,009	4,354
Capital assets	5,778	5,669	3,593	3,597	3,615	3,428	2,842	2,952
Goodwill and intangible assets	8,722	8,723	8,726	8,634	3,177	2,725	-	-
Loans receivable	8,452	9,086	8,303	7,307	-	-	-	-
Other assets	7,294	7,074	5,766	5,530	3,284	2,802	2,201	2,587
	$ 326,549	**$ 286,810**	**$ 296,211**	**$ 240,859**	**$ 222,397**	**$ 243,592**	**$ 245,959**	**$ 243,616**
LIABILITIES AND SHAREHOLDERS' EQUITY								
Liabilities								
Debentures	$ 222,619	$ 195,459	$ 202,212	$ 147,338	$ 153,646	$ 176,742	$ 187,428	$ 184,902
Accounts payable and accrued charges	16,171	9,345	8,902	10,700	11,432	11,288	5,225	9,064
Loans payable	11,935	6,612	9,792	6,289	9,170	8,430	9,846	6,432
Subordinated debenture	17,441	17,395	17,350	17,305	-	-	-	-
	268,166	**228,811**	**238,256**	**181,632**	**174,248**	**196,460**	**202,499**	**200,398**
SHAREHOLDERS' EQUITY								
Share capital	57,405	57,405	57,405	57,405	46,321	46,321	42,454	42,454
Retained earnings	978	594	550	1,822	1,828	811	1,006	764
	58,383	**57,999**	**57,955**	**59,227**	**48,149**	**47,132**	**43,460**	**43,218**
	$ 326,549	**$ 286,810**	**$ 296,211**	**$ 240,859**	**$ 222,397**	**$ 243,592**	**$ 245,959**	**$ 243,616**

DIRECTORS OF MCAP INC.

Margaret J. Barrett, M.A.
CEO, North America Merryck & Co.
Member of the Human Resources and Compensation Committee, Chairman of the Conduct Review and Corporate Governance Committee
Director since February 2000

David G. Broadhurst, B.A., C.A.
President, Poynton Investments Limited, Member of the Conduct Review and Corporate Governance Committee
Chairman of the Audit Committee
Director since May 1997

André Collin
President and COO, CDP Capital - Real Estate Advisory Inc.
Member of the Investment Committee, Member of the Human Resources and Compensation Committee
Director since February 2002

Raymond Doré, C.A.
Chairman, MCAP Inc. and MCAP Financial Corporation
Director since May 1997

Brian Johnson, B.COM., M.B.A., F.L.M.I., C.F.A.
President and CEO, Crown Life Insurance Company
Member of the Investment Committee, Chairman of the Human Resources and Compensation Committee
Director since January 2001

David A. MacIntosh, M.A.
Corporate Director
Chairman of the Investment Committee, Member of the Audit Committee
Director since January 2000

Derek Norton, B.COM.
President and CEO, MCAP Inc.
Director since July 2000

Ian Sutherland, B.COM., C.A., C.F.A.
Chairman, North West Company Inc., Member of the Investment Committee
Member of the Audit Committee
Director since January 1991

James E. Wright, M.B.A., J.D.
Corporate Director
Member of Audit Committee
Member of Conduct Review and Corporate Governance Committee
Director since May 2002

OFFICERS AND MANAGEMENT OF MCAP INC.

Raymond Doré
Chairman

Derek Norton
President and CEO

Lorne Jenkins
Vice-President and CFO

Blaine Welch
Senior Vice-President and Chief Risk and Investment Officer

Anthony Stilo
Chief Audit Officer

Ken Teskey
Chief Compliance Officer

Susan Doré
Corporate Secretary

OFFICERS AND MANAGEMENT OF THE MCAP GROUP OF COMPANIES

Executive

Raymond Doré
Chairman, MCAP Inc. and MCAP Financial Corporation

Derek Norton
President and CEO MCAP Inc. and CEO MCAP Financial Corporation and MCAP Service Corporation

Blaine Welch
Senior Vice-President and Chief Risk and Investment Officer MCAP Inc. and Senior Vice-President, MCAP Financial Corporation

Lorne Jenkins
Vice-President and CFO MCAP Inc. and MCAP Financial Corporation

Philip Asseff
President and CEO MCAP Securities Inc.

Eugene Basolini
President and COO MTC Leasing Inc.

Scott Cameron
President MCAP Equity Advisors

Dale Klein
President and CEO Canada ICI Commercial Mortgages Inc.

Steven Maker
President and COO MCAP Financial Corporation and MCAP Service Corporation and COO, MCAP Mortgage Corporation

Ron Swift
President and CEO MCAP Mortgage Corporation

Robert Stuebing
Senior Vice-President Investment Banking MCAP Financial Corporation

George Elliott
Executive Vice-President MCAP Financial Corporation

Ric McGratten
Executive Vice-President MCAP Financial Corporation

Corporate

Mark Aldridge
Vice-President Finance and Corporate Controller

Mary Barcellos
Vice-President Human Resources

Susan Doré
Corporate Secretary

Gord Herridge
Vice-President and CFO Residential Mortgages

Steve Holman
Vice-President Corporate Planning and Analysis

Bruno Iacovetta
Vice-President Capital Management

Claus Kretschmann
Vice-President Enterprise Risk Management

Domenic Maggio
Vice-President Infrastructure

Robert May
Vice-President Technology Architecture

Jack Shapiro
Vice-President Marketing

Patti Somers
Vice-President and Chief Technology Officer

Anthony Stilo
Chief Audit Officer

Ken Teskey
Chief Compliance Officer

John Thompson
Vice-President Business Development

Construction Origination and Servicing

Robert Balfour
Vice-President Real Estate Lending

Gerard Caverson
Vice-President Real Estate Lending

Alexander Fox
Vice-President Real Estate Lending

Robert Maciver
Vice-President Real Estate Lending

Mark Yhap
Senior Vice-President Real Estate Lending

Commercial Origination

Fred Harris
Vice-President

Jim Leitch
Vice-President

Phil Lovera
Vice-President

Thomas Marcantonio
Vice-President

Peter Morrish
Vice-President

Bruce Roy
Vice-President

Commercial Servicing

John Garthson
Vice-President

Milan Mihailovich
Vice-President

Don Ross
Senior Vice-President Commercial Mortgages

Residential Origination and Servicing

Jeffery Armstrong
Vice-President Credit

Bryan Devries
Vice-President Broker Lending

Cheryl Preston
Vice-President National Servicing

Joe Santos
Regional Vice-President Western Canada

Dan Wowk
Vice-President Business Solutions

Asset/Portfolio Management

Nuala Taylor
Vice-President and Director

Leasing

Dara Coulter
Vice-President Finance

Susan Cousineau
Vice-President Operations

Ed Dias
Vice-President Credit and Business Services

Gord Herridge
CFO and Secretary

MCAP INC.

Toronto
200 King Street West
Suite 400, M5H 3T4
416-598-2665 or 1-800-387-4405

MCAP FINANCIAL CORPORATION

Toronto
200 King Street West
Suite 400, M5H 3T4
416-598-2665 or
1-800-387-4405

Vancouver
1140 West Pender Street
Suite 1400, V6E 4G1
604-681-8805 or
1-800-977-5877

Calgary
435 - 4th Avenue S. W.
Suite 250, T2P 3A8
403-266-5722

Halifax
2000 Barrington Street
Suite 522, B3J 3K1
902-422-1920

MCAP MORTGAGE CORPORATION

Toronto
200 King Street West
Suite 400, M5H 3T4
416-598-2665 or
1-800-387-4405

Vancouver
1140 West Pender Street
Suite 1400, V6E 4G1
604-682-7161 or
1-800-977-5877

Calgary
435 - 4th Avenue S. W.
Suite 250, T2P 3A8
403-266-5722

Kitchener
101 Frederick Street
Suite 200, N2H 6R2
519-743-8773 or
1-800-265-2624

MCAP SERVICE CORPORATION

Toronto
200 King Street West
Suite 400, M5H 3T4
416-598-2665 or
1-800-387-4405

Edmonton
10235 - 101st Street
Suite 1312, T5J 3J8
780-414-0911 or
1-800-265-2624

Montreal
1550 Metcalfe Street
Suite 1510, H3A 1X6
514-282-8038 or
1-888-811-2529

Kitchener
101 Frederick Street
Suite 200, N2H 6R2
519-743-8773 or
1-800-265-2624

MCAP SECURITIES INC.

Toronto
200 King Street West
Suite 400, M5H 3T4
416-598-2665 or
1-800-387-4405

Montreal
1 Westmount Square
Suite 1250, M3Z 2P9
514-989-1909

MCAP COMMERCIAL LP

Toronto
200 King Street West
Suite 400, M5H 3T4
416-598-2665 or
1-800-387-4405

Regina
1874 Scarth Street
Suite 1950, S4P 4B3
306-546-6144 or 1-866-881-5580

CANADA ICI COMMERCIAL MORTGAGES INC.

Victoria*
1110 Government Street
Suite 204
V8W 1Y2
250-380-7577
*correspondent office

Vancouver
1050-1040 West Georgia Street
V6E 4H1
604-684-6700

Calgary
720-630 6th Avenue S. W.
T2P 0S8
403-297-9320

Edmonton
10060 Jasper Avenue
Suite 1750, T5J 3R8
780-990-1144

Toronto
36 Toronto Street
Suite 720, M5C 2C5
416-368-8844

Montreal
1010 Sherbrooke St. W.
Suite 405, H3A 2R7
514-499-8559

MTC LEASING INC.

Burlington
3310 South Service Road
L7N 3M6
905-639-3995 or
1-800-263-5137

CORPORATE DIRECTORY AND INFORMATION

Auditors

Ernst & Young LLP
Toronto, Ontario

Corporate Information

This MCAP Inc. 2002 Annual Report is available for viewing/printing on our web site at **www.mcap.com**
For a printed copy, please contact : Corporate Communications Department
200 King Street West, Suite 400
Toronto, ON M5H 3T4
416-598-2665 or 1-800-387-4405
(On peut obtenir sur demande un exemplaire en français.)

Corporate Counsel

Blake, Cassels & Graydon LLP
Toronto, Ontario

General Information

For general inquiries about company news and initiatives, please contact our Corporate Communications Department. MCAP Inc.'s news releases are available on our web site.

Bank

Bank of Montreal
First Canadian Place
Toronto, Ontario

Ratings by Standard & Poor's

Residential
Prime Servicer - Above Average
Subprime Servicer - Above Average

Commercial
Primary Servicer - Above Average
Special Servicer - Average

Registrar and Transfer Agent

Shareholder Inquiries
For dividend information, change in share registration or address, lost certificates, estate transfers, or to advise of duplicate mailings, please call MCAP Inc.'s Transfer Agent and Registrar at 1-800-332-0095, or write to: Computershare Trust Company of Canada
100 University Avenue,
9th Floor
Toronto, ON M5J 2Y1

Web Sites

Corporate
mcap.com

Immigrant Investor
newcanadianplan.com

Investor Services
investorinquiry.com

Broker Lending
mcapbroker.com

Commercial Mortgages
canadaici.com

Leasing
mtcleasing.com

Public Listing

Toronto Stock Exchange
Exchange symbol MKP

Annual Meeting

May 14, 2003 at 4:00 p.m.
St. Andrew's Club and Conference Centre
150 King Street West,
27th Floor
Toronto, Ontario

AFFILIATIONS

MCAP is a member of the following organizations:

Alberta Mortgage Brokers Association
Canadian Finance and Lease Association
Canadian Institute of Mortgage Brokers and Lenders
Canadian Investor Protection Fund
Canadian Management Centre
Commercial Mortgage and Lender Association
Investment Dealers Association
Mortgage Bankers Association of America
Mortgage Brokers Association of British Columbia
National Association of Industrial and Office Properties
Ontario Long Term Care Association
Societas International
Urban Development Institute

MCAP is regulated by the following regulatory bodies:

Canada Deposit Insurance Corporation
Commercial Mortgage Securities Association (US)
Financial Services Commission of Ontario
Office of the Superintendant of Financial Institutions
Real Estate Institute of British Columbia
The Mortgage Loans Association of Alberta

MCAP receives mortgage insurance coverage from:

Canada Mortgage and Housing Corporation
GE Capital Mortgage Insurance Corporation

MCAP supports the following charitable organizations:

Habitat for Humanity
United Way

PRODUCTION AND

MCAP INC.
200 King Street West, Suite 400
Toronto ON M5H 3T4
416-598-2665 or 1-800-387-4405
www.mcap.com